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# THE ROLE OF HUMAN CAPITAL IN THE STRUCTURAL CHANGE PROCESS

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## RESUMO

O objetivo deste artigo é verificar se o capital humano é um determinante importante da mudança estrutural nos diferentes setores da economia e se este pode acelerar a velocidade dessa transformação estrutural. Este artigo contribui com a literatura ao desenvolver um teste empírico do modelo proposto por Li *et al.* (2019) e ao utilizar o Método Generalizado de Momentos (GMM), que considera o problema de endogeneidade encontrado nas variáveis de capital humano. O artigo também utiliza duas *proxies* para capital humano e mudança estrutural, a fim de verificar se elas afetam ou não a variável de interesse e também para fornecer resultados robustos. Os resultados encontrados mostraram que o capital humano tem um papel essencial no processo de transformação estrutural da economia, uma vez que afeta a participação relativa dos setores no valor agregado total ou no emprego total. Além disso, o capital humano mostrou-se como um potencial acelerador dessa transformação estrutural.

**Palavras-chave:** Capital Humano, Mudança Estrutural, GMM.

## ABSTRACT

The main of this paper is to verify if human capital is an important determinant of structural change in the different sectors of the economy and if it can accelerate the speed of this structural transformation. This paper contributes to the literature once it develops an empirical test of the model proposed by Li *et al.* (2019) and it uses the generalized method of moments (GMM) which considers the problem of endogeneity found in human capital variables, it also uses two proxies for human capital and structural change in order to verify whether or not they affect the variable of interest and also to provide robust results. Results showed that human capital has an essential role in the structural transformation process of the economy, since it has an effect on the relative participation of the sectors on total added value or on total employment. Also, human capital proved to be a potential accelerator of this structural transformation.

**Key words:** Human Capital, Structural Change, GMM.

**Área ANPEC:** Área 6 - Crescimento, Desenvolvimento Econômico e Instituições

**JEL Code:** J24, O11, O33.

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## 1 Introduction

The structural change of a country can be understood as a process of transformation of the economy with profound implications for the growth and development of society. As industrialization and modernization take place, countries cease to be based on low-productivity agriculture and become urbanized with modern, dynamic and more technological sectors. The service sectors develop and start to play an important role in the economy, as it accounts for the largest share of the gross domestic product. Human capital plays an important role in this process, since, as the educational level and the skills of the population increase, the labor productivity and the capacity for innovation exponentially develops, which accelerates the process of structural transformation of the economy. However, there is still much to be studied about the role of human capital in this process of structural transformation, therefore, this study is the main objective of this paper.

Structural change is a process linked to the growth and development of nations which countries experience over time. As countries grow richer, secular shifts can be observed in their allocation of labor and expenditure across broad sectors (ŚWIĘCKI, 2017). As a rule, when countries get urbanized, they first reallocate employment, production and consumption of the agricultural sector to the industrial and service sectors. Subsequently, resources are often reallocated from industry to services (ALONSO-CARRERA and RAURICH, 2018)<sup>4</sup>.

The reallocation of labor happens when countries begin to shift their development patterns toward more technological levels, thereby changing the participation (and importance) of agriculture, manufacturing and services in the country's economy. Not only does structural change stimulate economic growth, it can also lead to a sustained growth path (MARTINS, 2019). Countries that experience changes in productive structures to a greater share of technology/knowledge-intensive activities tend to observe higher economic growth (TEIXEIRA and QUEIRÓS, 2016).

Most of the literature is focused on analyzing the role of structural change on economic growth, but there is also a large body of literature that examines how this process happens and what are its main determinants. There is theoretical and empirical evidence that structural changes are driven by technological progress (Freeman *et al.*, 1982; Świącki, 2017), openness to international trade (Matsuyama, 2009; Uy *et al.*, 2013; Rodrik, 2016), changes in the demand structure as a result of income effects (Gollin *et al.*, 2007; Duarte and Restuccia, 2010; Boppart, 2014), and relative price effects as a result of the introduction of heterogeneous sectoral production functions into the multi-sector growth models (Alvarez-Cuadrado and Poschke, 2011; Grossmann, 2013). Chenery (1960) argued that in addition to demand-related factors, changes in supply conditions like the capital stock per worker and skill levels should be considered when looking at the determinants of structural change.

Human capital, which is one of the main determinants of economic growth (Schultz, 1961; Becker, 1964; Barro, 1991), has been overlooked in the literature as a determinant of structural change. A large body of literature in growth theory is dedicated to examining human capital accumulation and structural change separately, but few works focus on their empirical and theoretical relationship (Li *et al.*, 2019). One way to progress in the understanding of the effects of human capital on growth is to focus on channels through which such effects could work (CICCONI and PAPAIOANNOU, 2009) and one of these channels is through structural change.

Kongsamut *et al.* (1997, 2001), seeking to explain the Kuznets facts, developed a three sectors nonbalanced growth model and concluded that structural change occurs due to the difference in income elasticity of demand for the final goods of the three main sectors - agriculture, manufacturing and services. In order to investigate the relationship between human capital and structural change, Li *et al.* (2019) developed a theoretical model proposing the combination of the structural change model

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<sup>4</sup> This is the classical definition of structural change and can be seen in more detail in the works of Kuznets (1966, 1971), Chenery and Syrquin (1975), Robinson and Syrquin (1986).

developed by Kongsamut *et al.* (1997, 2001) with the endogenous growth model proposed by Romer (1990). The authors suggest that by introducing Romer's (1990) endogenous technological change into the multi-sector growth model pioneered by Kongsamut *et al.* (1997, 2001), human capital can accelerate the structural change of the economy.

Ciccone and Papaioannou (2009) found evidence of a positive relationship between human capital and structural change because added value and employment growth in school-intensive industries was significantly faster in economies with higher initial levels of schooling. Also, according to Li *et al.* (2019), there is a positive and statistically significant relationship between the stock of human capital and the speed of structural change. One reason would be that accumulation of human capital expands the role of Research and Development (R&D) in the economies (BODMAN and LE, 2013) and affects the technological progress of countries (ROMER, 1990; CASELLI and COLEMAN, 2006). Thus, as the stock of human capital of the countries increases, the productivity and skill of the workers increases, leading to an acceleration of the structural change of the country.

Considering that there are few papers devoted to studying the human capital as a source of structural change and that empirical works usually use only three sectors in the analysis, it is understood that this article, when testing a theoretical model that discusses those connections, fit within the literature in a novel way to offer insights on how to enhance the structural change of the economy. Given the important role of human capital and structural change in the economic growth of countries and that little is discussed about the impact of human capital on structural change, the question this article seeks to answer is: Is human capital an important determinant of structural change in the different sectors of the economy and can it accelerate the speed of this structural transformation?

This paper contributes to the literature by: i) developing an empirical test of the model proposed by Li *et al.* (2019); ii) expanding on previous work by broadening the analysis by using ten sectors of the economy<sup>5</sup> and, when using the generalized method of moments (GMM) instead of the fixed effects panel used by the author, it also considers the problem of endogeneity found in human capital variables; iii) using two proxies for human capital: the main purpose of using two different measures of human capital is to do an exploratory analysis of these alternative measures in order to verify whether or not they affect the variable of interest and also to provide robust results. More specifically, the objective of the paper is to estimate the direct effects of human capital on structural change, considering two different measures of human capital, while controlling for other determinants found in the literature.

Seeking to meet these objectives, this paper uses system GMM estimates to examine the model proposed by Li *et al.* (2019). The dynamic panel data model was chosen due to the problems of endogeneity and heterogeneity that can be found in human capital empirical studies (ZHANG and ZHUANG, 2011; TEIXEIRA and BARROS, 2019). The data used comes from several sources: GGDC 10-Sector Database; Penn World Table; World Development Indicators from World Bank and schooling data from Barro and Lee (2013) and covers 40 countries with annual data from 1950 to 2013. Results showed that human capital has an essential role in the structural transformation process of the economy, since it has an effect on the relative participation of the sectors on total added value or on total employment. Also, human capital proved to be a potential accelerator of this structural transformation.

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<sup>5</sup> The sectors used in this paper follow the ten main sectors of the economy as defined in the International Standard Industrial Classification, Revision 3.1 (ISIC rev. 3.1): agriculture (includes agriculture, hunting, forestry and fishing); mining (includes mining and quarrying); manufacturing; utilities (includes electricity, gas and water supply); construction; trade services (includes wholesale and retail trade, hotels and restaurants); transport services (includes transport, storage, and communication); finance services (includes finance, insurance, real estate and business services); government services and personal services (includes community, social and personal services).

The rest of the paper is structured as follows: section 2 presents the literature review about structural change and human capital, section 3 presents the model and the methodology used, section 4 presents the results and discussion, and section 5 concludes and summarizes the paper's results.

## 2 Literature review and theoretical background

Structural change can be understood as a process that occurs as countries advance in the development of their economies. It occurs when countries develop dynamic agricultural, manufacturing and services sectors and, consequently, experience a significant increase in income levels. Human capital has an important role in this process, since as people's educational level increases as well as their skills, the country's productivity grows and, with that, there is an acceleration of the structural change process. However, there is still much to be explored in the relationship between these two variables, so this section aims to summarize the main features of structural transformation and human capital.

Structural change is a process of qualitative transformation of the structure of employment and production of an economy (sequential rearrangement of economic activity that accompanies the process of economic development over time), presenting itself not only as a by-product of the economic growth, but as one of its main drivers. Although the process of structural change is a central feature of economic development, its pace and direction vary substantially from economy to economy (KUZNETS, 1966). The discussion of structural change began in the literature with the seminal works of Fisher (1939), Kaldor (1961), Kuznets (1966, 1971), Chenery and Syrquin (1975), Chenery *et al.*, (1986).

This process is a reality that has been taking place for decades in countless countries around the globe. The reallocation of labor happens when countries begin to shift their development patterns toward more technological levels, thereby changing the participation (and importance) of sectors in each country's economy. The performance of an economy depends on its ability to promote structural change from trends in reallocating inputs and outputs from less productive sectors to those with greater technological and demand dynamics (CHENERY, 1960; KALDOR, 1961; KUZNETS, 1966; 1971; BAUMOL, 1967; McMILLAN and RODRIK, 2011).

For a long time, the process of structural change did not play a relevant role in economic growth studies. However, in recent years, there has been a resurgence of interest in the study that encompasses the role of structural change in the process of economic growth and development (TEMPLE, 2005; McMILLAN and HEADY, 2014), from, for example, dual models of growth, assuming the coexistence of a relatively advanced sector and a relatively backward sector in the economy, whether modern/traditional, industry/agriculture, capitalist/subsistence, formal/informal (CASELLI, 2005; TEMPLE and WÖBMAN, 2006; DUARTE and RESTUCCIA, 2010; HERRENDORF *et al.*, 2014).

As countries move forward in the process of structural change, the relative importance of different sectors and, hence, sectoral employment shares changes. Initially, change occurs in the primary sector, where workers are released due to technological advances and migrate to the manufacturing sector. Secondly, employment shares rise steadily with increasing per capita income in the tertiary sector, which is also becoming a more technological and productive sector.

Transformation in sectoral composition is continuous, constantly observing an increase in the importance of some sectors in the economy as well as the decline of others (TEIXEIRA and QUEIRÓS, 2016). However, in some developing countries in recent years, there seems to be a process of "direct" structural change, where workers are migrating from the direct agricultural sector to the tertiary sector, i.e. these countries are "skipping" the phase of manufacturing development. Considering the role of structural change in the economic growth of countries, as well as these new

patterns of structural change, where technology increasingly plays an important role, the importance of studying the role of human capital as a driver of structural change is reinforced.

Human capital can be broadly defined as the stock of knowledge, skills and other personal characteristics embodied in people that help them to be more productive (BOTEV *et al.*, 2019; GOLDIN, 2016). This set of intangible resources is associated with knowledge and skills gained through education, experience, health care and migration (SCHULTZ, 1961; BECKER, 1962; TEIXEIRA and QUEIRÓS, 2016). According to Acemoglu (2009), the term was coined because many of those attributes are accumulated by workers through investments.

The literature points to two mechanisms through which human capital can affect economic growth. First, education increases the human capital of the workforce, which increases labor productivity and, consequently, leads to a higher level of equilibrium production (ROMER, 1990; BODMAN and LE, 2013). Second, following endogenous growth theories, a higher educational level increases the capacity for innovation in the economy, leads to the development of new technologies, products and processes, and thus promotes economic growth (ROMER, 1990; HANUSHEK and WOESSMANN, 2008).

Despite advances in empirical research on the role of human capital, there is still no consensus on which measure of human capital is the most appropriate. The most commonly used proxy of human capital is the average years of schooling provided by Barro and Lee (2013), particularly because of its wide country coverage. However, Mulligan and Sala-i-Martin (1995) pointed out that average years of schooling are a weak proxy for human capital because it assumes that workers are perfect substitutes regardless of their field of activity, differences in productivity among workers are proportional to years of schooling regardless of their salary differences and that a year of study generates the same skill increase, regardless of the quality of education or area of study; it also assumes the constant elasticity of substitution among workers, even if they are of different categories.

In addition, using school attainment as a measure of human capital in an international setting presents huge difficulties because it does not include the differences in skills learned across countries, and it implies that an additional school year increases human capital at a constant rate (WOESSMANN, 2003; HANUSHEK, 2013). Despite these problems, the average years of schooling is the most common proxy of human capital used in the literature (Lee and Barro, 2001; Moral-Benito, 2012; Haraguchi *et al.*, 2019).

Another proxy commonly used in the literature is primary, secondary and tertiary school enrollment rates, also provided by Barro and Lee (2013). This proxy considers the highest level attained percentage of the population aged 15 and over and has been used in numerous studies (i.e. Barro, 1991; Levine and Renelt, 1992; Bruns and Ioannidis, 2020).

In recent years numerous other measures of human capital have emerged. However, most of these proxies use quantitative data and they do not give an indication of the skill level of the workforce. According to Benos and Zotou (2014), one solution in order to account for qualitative differences across education systems, is to focus on quality education measures such as educational expenditure, student/teacher ratios, and test scores. However, data available which address the quality of education is limited to a few countries or a few time periods, which makes cross-country analysis difficult.

The above discussion shows that all available education measures have advantages and disadvantages, and this must be considered when the effect of education is analyzed (BENOS and ZOTOU, 2014). Therefore, when aiming to analyze the role of human capital, using more than one measure of analysis may be the way to obtain more robust empirical results that better explain the real world.

Considering that the objective of the article is to study the role of human capital in the structural transformation process of the economy, this paper used the theoretical model proposed by

Li *et al.* (2019) where the author introduces Romer (1990)'s endogenous technological change into the multi-sector growth model pioneered by Kongsamut *et al.* (1997, 2001).

The authors start from an economy with three sectors (a final-goods sector, an intermediate-goods sector, and a research sector) and show that the rate of economic growth depends on the total stock of human capital, time discount rate and technological parameters of the research and final-goods sectors. The larger the total stock of human capital in the economy is, the more the human capital employed in the research sector becomes and the faster knowledge accumulates. Consequently, the rate of economic growth will be higher.

They demonstrate that there are aggregate effects of human capital on structural change. Thus, an increase of human capital accelerates the shrink of the agricultural sector and the expansions of the manufacturing and services sectors, concluding that an increase of human capital accelerates the structural transformation of the economy.

## 4 Methods and data

This section provides the general methodology used in this paper, which is the dynamic panel data model and the databank collected in order to do so.

### 4.1 General method

This section presents an empirical model that seeks to test the predictions of the theoretical model proposed by Li *et al.* (2019)<sup>6</sup>. Due to the possible problems of endogeneity and heterogeneity that can be found in human capital empirical studies (Bond *et al.*, 2001), this paper uses a dynamic panel data model, where differences between countries are captured across and over time. The parameters of the following dynamic specification are estimated:

$$sc_{it} = \delta sc_{i,t-1} + \beta' X_{it} + \lambda hcap_{it} + \theta' D_{it} + u_{it} \quad (12)$$

where  $sc_{it}$  is the structural change variable in either of the ten sectors used in this paper: it was used two different measures of structural change: the employment share and the added value at constant 2005 national prices share.  $X_{it}$  is a  $K \times 1$  vector of the linear explanatory variables (physical capital per worker, population density, international trade). The variable  $hcap_{it}$  represents the variable of interest and shows the impact of a changing proportion of human capital (considering the two different measures proposed) on the structural change variable in either of the ten sectors. Besides that,  $D_{it}$  is a vector of the cross-sectional fixed effects,  $sc_{i,t-1}$  is the first lag of the dependent variable, which was included in order to consider its temporal correlation, and  $u_{it}$  is the component error vector.

In the presence of the fixed effects estimation of the parameters of the dynamic panel data model is subject to estimation bias (Nickell, 1981). As the solution to it, a number of panel data estimators have been proposed, including the instrumental estimator of Anderson and Hsiao (1982) that uses the first-differences of the data in order to eliminate the fixed effects.

Arellano and Bond (1991) expanded the Anderson and Hsiao (1982) estimator and found that there are many more instruments available within the GMM framework than used by conventional instrumental variable estimation. The GMM estimator of Arellano and Bond (1991) is the twostep estimator. In the first step, the parameters are estimated using the identity matrix for weighting the

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<sup>6</sup> For a detailed analysis of the theoretical model used in this paper, see Li *et al.* (2019).

moment conditions. In the second step, an asymptotically more efficient estimation is conducted by optimal weighting of the moment condition using the first-step estimation results.

The second equation that forms the system is the following difference equation:

$$\Delta sc_{it} = \delta \Delta sc_{i,t-1} + \beta' \Delta X_{it} + \lambda \Delta hcap_{it} + \Delta u_{it} \quad (13)$$

where  $\Delta$  is the first-difference operator. The problem of instrument quality is minimized by using lags of the dependent variable as instruments for the first equation and the lags of the variables in differences for the second equation (Arellano and Bond, 1981; Arellano and Bover, 1995; Blundell and Bond, 1998).

In addition to the difference-GMM, which can show persistence in the series, and consequently, the level variables become weak instruments for the difference equation, implying bias and low precision in finite samples (BLUNDELL and BOND, 1998), the system-GMM can be used. In the system-GMM estimation, the model itself and the first difference of the model are estimated as a “system”. Thus, system-GMM is formed by the level equation, which uses difference lags as instruments, and the difference equation which uses level-lagged variables as instruments. Blundell and Bond (1998) present evidence that this estimator, for finite samples, would perform better than the difference-GMM estimator both in terms of bias and efficiency.

Furthermore, as one of the mains of this paper is to verify whether human capital, in addition to affecting structural change, is able to accelerate the speed with which such change occurs, after initial estimates new estimates are made from the primary results obtained, that is, the second derivative of the model is obtained, which allows to verify the rate of change (speed) of the structural transformation. The rate of change is calculated according to the following equation (14):

$$g_{sc_t} = \frac{\ln(sh_{sc_{i,t}}/sh_{sc_{i,t-5}})}{5} \quad (14)$$

where  $g_{sc_t}$  is the speed of the structural change (rate of change),  $g_{sc_t}$  is the share of each sector on total employment or added value and  $sh_{sc_{i,t-5}}$  is the share of each sector on total employment or added value in time  $t-5$ .

## 4.2 Data

Considering that one of the objectives of this paper is to work with a larger number of sectors besides the three normally used in the literature (agriculture, manufacture and services), the main dataset we used is the GGDC 10-Sector Database (TIMMER *et al.*, 2015), which provides a long-run internationally comparable dataset on sectoral productivity performance for 40 countries<sup>7</sup> and includes annual data from 1950 to 2013. This dataset covers the ten main sectors of the economy as defined in the International Standard Industrial Classification, Revision 3.1 (ISIC rev. 3.1): agriculture; mining; manufacturing; utilities; construction; trade services; transport services; business services; government services and personal services. Physical capital per worker and population density data were collected from Penn World Table 9.1. International trade data comes from the World Development Indicators data base of the World Bank.

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<sup>7</sup> The countries in the sample are: Argentina, Bolivia, Botswana, Brazil, Chile, China, Hong Kong (China), Colombia, Costa Rica, Denmark, Egypt, Ethiopia, France, Ghana, India, Indonesia, Italy, Japan, Kenya, Malawi, Malaysia, Mauritius, Mexico, Netherlands, Nigeria, Peru, Philippines, Republic of Korea, Senegal, Singapore, South Africa, Spain, Sweden, Taiwan, Thailand, Tanzania, United Kingdom, United States, Venezuela and Zambia.



Due to the fact that there is no consensus in the literature on which would be the most appropriate measure for human capital, another aim of this paper is to use and test two different measures of human capital in order to verify which one is the most appropriate to explain the process of structural change. The first measure used is the average years of schooling provided by Barro and Lee (2013) and it is the most commonly used proxy of human capital (Temple and Wößmann, 2006; Bodman and Le, 2013).

The second measure of human capital is the Penn World Table index based on the average years of schooling from Barro and Lee (2013) and Cohen and Soto (2007) and an assumed rate of return to education, based on Mincer equation estimates around the world (Psacharopoulos, 1994). This is a relatively new measure of human capital, however, is considered a superior measure in capturing multidimensional facets of human capital (Feenstra *et al.*, 2015). Murphy and O'Rilley (2019) and Bruns and Ioannidis (2020) are examples of papers that used this proxy.

The structural change variables (employment share and added value share) come from GGDC database, this dataset provides country-level data from 1950-2013 for 42 countries. However, considering that human capital data provided by Barro and Lee (2013) has a 5-year interval between observations, it was used the same interval for the Penn World Table index data, so, it is possible to compare the results and the control variables were linearized. The number of observations used in this paper was 344.

## 5 Results

### 5.1 The human capital role on the structural change of the sectors

As the first aim of this paper it is to analyze the human capital role in the structural transformation of the sectors, Table 1 shows the results of the GMM model for the Added Value share of the ten sectors analyzed considering the Penn World Table index as a proxy for human capital. All GMM results were obtained using GMM-style instruments that were replaced with their main components using the method developed by Mehrhoff (2009), Kapetanios and Marcellino (2010) and Bai and Ng (2010) and all models include time dummies<sup>8</sup>.

Importantly, although the models for each sector are independents<sup>9</sup>, they all have satisfied all the requirements of the Arellano-Bond AR(1) and AR(2) tests. The AR(1) correlation is positive and statistically significant in all models, but the AR(2) correlation is not significant at standard levels. Also, the Sargan Overidentification test presented the expected results. Thus, the results of these three tests suggest that the instruments are valid for all regressions reported in Table 1<sup>10</sup>. Considering the results in Table 1, it is possible to verify that, of the 10 sectors analyzed, six sectors presented significant results for the human capital index: Mining, Manufacturing, Utilities, Construction, Trade and Financial services.

The coefficients of the mining and utilities sectors were both significant and negative, showing that, for these sectors, human capital is an important element to explain structural change but its impact is negative, that is, the increase in the level of human capital it is contributing to the reduction of structural change in these sectors (as workers acquire more human capital, they migrate to other sectors, which contributes to reducing the share of added value related to these sectors).

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<sup>8</sup> A 5-year interval was used in all regressions since it is understood in the literature that human capital does not change sharply from one year to another, thus, a longer period allows a more concrete analysis of the impact of this variable on structural transformation.

<sup>9</sup> The models are considered independent because they were run separately, where each model structure (number of lags and/or orthogonality condition) is unique for each sector.

<sup>10</sup> Among all the regressions run, only two models did not pass the validity tests of the instruments: mining sector and utilities sector considering employment share and PWT as human capital index, both are in the Table 2.

**Table 1 – Dependent Variable: Added Value share of each sector, human capital index: Penn World Table, 1950-2010 (5-year interval)**  
**(GMM-style instruments replaced with their principal components)**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
L.Employment share	0.792*** [11.38]	0.837*** [10.03]	1.076*** [25.59]	0.990*** [13.52]	0.674*** [9.09]	0.871*** [10.74]	1.025*** [11.30]	0.798*** [17.76]	0.842*** [15.16]	0.919*** [28.77]
Human capital index	-0.486 [-0.22]	-10.46** [-2.28]	3.616** [2.06]	-0.488** [-2.22]	1.518* [1.96]	2.852** [2.00]	-1.107 [-1.62]	2.559** [2.15]	2.101 [1.37]	0.662 [0.55]
Ln physical capital	-0.409 [-0.37]	1.158 [0.61]	-2.658*** [-2.72]	0.301** [2.36]	-0.529 [-1.08]	-1.105 [-1.33]	0.328 [1.24]	0.229 [0.52]	0.0386 [0.05]	0.750 [0.85]
Ln Population density	0.725 [1.28]	0.403 [0.51]	0.408 [1.29]	0.0353 [0.58]	-0.442* [-1.81]	-0.234 [-0.72]	0.296 [1.52]	-0.0398 [-0.43]	-0.191 [-1.37]	-0.549** [-2.48]
Ln Exportation	-1.255 [-1.52]	-0.542 [-0.48]	0.503 [1.07]	-0.0853 [-0.87]	-0.272 [-0.51]	1.854** [2.31]	-0.446* [-1.87]	0.182 [0.75]	0.0448 [0.17]	1.038 [1.32]
Time Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	326	326	336	336	336	336	325	305	235	315
# Instruments	47	49	44	47	46	50	37	38	37	49
p-values for										
AR(1)	0	0	0	0	0	0	0	0	0	0
AR(2)	0.583	0.545	0.843	0.299	0.804	0.460	0.836	0.128	0.872	0.953
Sargan Overid	0.152	0.568	0.375	0.127	0.390	0.395	0.378	0.162	0.402	0.367

**Notes:** Each model refers to the added value share of a sector: (1) Agriculture; (2) Mining; (3) Manufacturing; (4) Utilities; (5) Construction; (6) Trade; (7) Transportation services; (8) Financial services; (9) Government and (10) Community and personal services.

*t* statistics in brackets, \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$

All regressions are estimated using a one-step system GMM estimator and include time dummies. Also, GMM-style instruments are replaced with their principal instruments components using the methods developed by Mehrhoff (2009); Kapetanios and Marcellino (2010) and Bai and Ng (2010) and are implemented in Stata using the command `xtabond2`.

Specifications: Models (1) and (2): 1 lag for the share variable, 1 lag for the explanatory variables (human capital, physical capital and populational density), time variable and exportation considered exogenous and with 1 lag. Models (3), (4), (5) and (6): 1 lag for the share variable, 1 lag for all the explanatory variables, time variable considered exogenous  $e$  with 1 lag. Model (7): 1 lag for the share variable, 1 lag for the explanatory variables (human capital and populational density), time variable, physical capital and exportation considered exogenous with 1 lag. Models (8) and (9): 1 lag for the share variable, 1 lag for the explanatory variables (human capital and physical capital), time variable, populational density and exportation considered exogenous with 1 lag. Model (10): 1 lag for the share variable, 1 lag for the explanatory variables (human capital, physical capital and exportation), time variable and populational density considered exogenous  $e$  with 1 lag.

**Source:** Author's elaboration.

**Table 2 – Dependent Variable: Employment share of each sector, human capital index: Penn World Table, 1950-2010 (5-year interval)**  
**(GMM-style instruments replaced with their principal components)**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
L.Employment share	1.024*** [12.32]	0.903*** [24.32]	0.925*** [16.86]	0.868** [16.01]	0.580** [6.52]	1.091*** [15.62]	1.039*** [12.89]	0.904*** [17.65]	0.986*** [15.50]	1.032*** [9.39]
L2.Employment share					0.243*** [2.75]					-0.147 [-1.63]
Human capital index	-5.222 [-1.64]	-0.151 [-0.68]	-0.466 [-0.30]	0.178** [2.56]	-1.590* [-1.89]	3.257*** [2.97]	1.321** [2.15]	1.200 [1.20]	2.880* [1.81]	-2.455*** [-2.60]
Ln physical capital	2.217 [1.63]	-0.0997 [-0.67]	-1.828** [-2.11]	-0.109*** [-2.89]	0.855* [1.90]	-1.750*** [-3.00]	-0.752** [-2.15]	0.242 [0.41]	-0.267 [-0.35]	0.276 [0.43]
Ln Population density	2.459*** [3.32]	0.0238 [0.38]	0.224 [0.73]	-0.0145** [-2.17]	0.0320 [0.45]	-0.794** [-2.57]	-0.403* [-1.72]	0.0727* [1.87]	-0.237 [-1.56]	-0.0746 [-0.55]
Ln Exportation	-1.905 [-1.22]	0.204 [1.62]	2.295** [2.46]	0.0749*** [3.44]	-0.131 [-0.53]	1.644** [2.41]	1.075*** [3.34]	0.182 [0.68]	-0.134 [-0.24]	0.0847 [0.15]
Time Dummies	Yes	yes	yes	yes	yes	yes	Yes	Yes	yes	yes
Observations	335	335	335	307	298	335	335	307	251	289
# Instruments	55	63	54	50	49	42	43	40	43	53
p-values for										
AR(1)	0	0	0	0	0	0	0	0	0	0
AR(2)	0.853	0.469	0.954	0.449	0.847	0.181	0.304	0.545	0.297	0.336
Sargan Overid	0.530	0	0.932	0	0.181	0.284	0.912	0.332	0.504	0.142

**Notes:** Each model refers to the employment share of a sector: (1) Agriculture; (2) Mining; (3) Manufacturing; (4) Utilities; (5) Construction; (6) Trade; (7) Transportation services; (8) Financial services; (9) Government and (10) Community and personal services.

*t* statistics in brackets, \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$

All regressions are estimated using a one-step system GMM estimator and include time dummies. Also, GMM-style instruments are replaced with their principal instruments components using the methods developed by Mehrhoff (2009); Kapetanios and Marcellino (2010) and Bai and Ng (2010) and are implemented in Stata using the command xtabond2.

Specifications: Models (1), (2) and (3): 2 lags for the share variable, 1 lag for all the explanatory variables, time variable considered exogenous and with 1 lag. Models (4), (5), (8) and (10): 2 lags for the share variable, 1 lag for the explanatory variables (human capital and physical capital), time variable, populational density and exportation considered exogenous e with 1 lag. Models (6) and (7): 1 lag for the share variable, 1 lag for all the explanatory, time variable considered exogenous e with 1 lag. Model (9): 1 lag for the share variable, 1 lag for the explanatory variables (human capital, physical capital and exportation), time variable and populational density considered exogenous e with 1 lag.

**Source:** Author's elaboration.

The sectors that showed a positive sign and were statistically significant were Manufacturing, Construction, Trade and Financial services. For these four sectors, human capital is relevant to explain the structural change that they underwent during the analysis period. The control variables, for the most part, did not present significant coefficients. The negative or positive impacts of human capital on each sector separately shows the general transformation that the countries underwent in the analyzed period. The sectors with negative impact are those that have become less important in the productive sphere, while those that have had a positive impact are those that, over time, have demanded more human capital: in general, the more technological sectors.

When considering the structural change of the sectors from the perspective of employment share (Table 2), it can be seen that the Construction and Community services sectors presented negative and significant coefficients while Trade, Transportation and Government sectors presented positive and significant coefficients, these three sectors maintained the benchmark results. Thus, it is possible to affirm that human capital has a positive effect on the structural change occurred in these sectors.

The results found when the human capital index of Barro and Lee (2013) was used can be found in Table A1 of the annex of this paper and corroborate the results found for the Penn World Table index. Considering employment share, the sectors that presented positive and significant coefficients were Agriculture, Utilities and Trade, which means that, for these sectors, the increase in the level of human capital impacts on the increase of the structural change in this sector. Analyzing the results of the added value share for the same index (Table A2), the results were less satisfactory because most of the regressions were not significant.

The results show that the human capital role on the structural change of the sectors has some specific trends, regardless the human index used: the relative participation of each sector in the economy is affected by human capital in different ways. When the regressions have sectors with negative impact it means that they are losing relative participation in the economy and when the sectors have positive impact it means that they had an increase in their relative participation in the added value or in the employment. Thus, in the analyzed period, the countries showed a tendency to lose the relative participation of the primary and secondary sectors and to increase the relative participation of the more technological service sectors.

Analyzing the set of results it is possible to verify that, in general, the results found are disparate, that is, human capital may not be affecting only the level of structural change, but rather the speed of this transformation, so that the next subsection presents the results of regressions in GMM considering the speed of structural change in the sectors as a dependent variable.

## **5.2 The human capital as an explanatory factor for the speed of structural change in the sectors**

This subsection presents the results of regressions in GMM considering the speed of structural change as a dependent variable (considering employment share and added value share) and, again, using two indices for human capital: data from Penn World Table and Barro and Lee (2013). The speed was calculated as the second derivative of the model proposed. Table 3 presents the results of the GMM regression for speed of the employment share of each sector using the Penn World Table data as a proxy for human capital. The other regressions are included in the annexes to this paper.

**Table 3 – Dependent Variable: Speed of the employment share of each sector, human capital index: Penn World Table, 1950-2010 (5-year interval)**  
**(GMM-style instruments replaced with their principal components)**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
L.Employment share	0.428** [2.52]	0.0225 [0.10]	0.538** [2.40]	0.0788 [0.47]	-0.0167 [-0.11]	0.188 [0.99]	0.172 [1.26]	-0.0539 [-0.29]	0.254 [1.39]	0.157 [0.79]
L2.Employment share	0.0647 [0.38]		0.00352 [0.03]	0.0718 [0.68]	0.00259 [0.03]		-0.163* [-1.88]	0.116 [1.08]		
Human capital index	-0.137 [-1.40]	0.872*** [2.80]	-0.199* [-1.67]	0.0575 [0.46]	0.300* [1.81]	0.180* [1.83]	-0.0970 [-0.88]	0.295** [2.07]	0.116 [1.40]	-0.158 [-1.30]
Ln physical capital	0.0949* [1.79]	-0.417*** [-2.94]	0.0359 [0.71]	-0.0392 [-0.58]	-0.204** [-2.43]	-0.102** [-2.47]	-0.00442 [-0.08]	-0.0797* [-1.76]	-0.0244 [-0.48]	0.104 [1.59]
Ln Population density	0.0340 [1.13]	-0.0330 [-1.31]	0.0210 [0.87]	-0.0242 [-1.53]	0.00648 [0.37]	-0.0157 [-1.27]	0.0372 [1.26]	-0.0141 [-1.24]	-0.0119 [-1.54]	0.00829 [1.00]
Ln Exportation	-0.0933** [-2.56]	-0.00483 [-0.04]	-0.0407 [-1.22]	0.104 [1.35]	0.0431 [0.52]	0.0440 [0.91]	-0.0204 [-0.55]	0.0433 [1.52]	0.00931 [0.42]	-0.0881** [-2.52]
Time Dummies	Yes	yes	yes	Yes	yes	Yes	yes	Yes	yes	yes
Observations	290	308	289	288	288	308	290	281	235	289
# Instruments	43	40	44	51	50	39	45	42	36	35
p-values for										
AR(1)	0	0	0	0	0	0	0	0	0	0
AR(2)	0.273	0.937	0.913	0.664	0.233	0.420	0.955	0.150	0.144	0.143
Sargan Overid	0.346	0.549	0.915	0.240	0.711	0.779	0.113	0.365	0.113	0.680

**Notes:** Each model refers to the speed of the added value share of a sector: (1) Agriculture; (2) Mining; (3) Manufacturing; (4) Utilities; (5) Construction; (6) Trade; (7) Transportation services; (8) Financial services; (9) Government and (10) Community and personal services.  
*t* statistics in brackets, \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$

All regressions are estimated using a one-step system GMM estimator and include time dummies. Also, GMM-style instruments are replaced with their principal instruments components using the methods developed by Mehrhoff (2009); Kapetanios and Marcellino (2010) and Bai and Ng (2010) and are implemented in Stata using the command xtabond2.

Specifications: Models (1) and (7): 2 lags for the share variable, 1 lag for all the explanatory, time variable considered exogenous and with 1 lag. Models (2) and (6): 1 lag for the share variable, 1 lag for the explanatory variables (human capital, physical capital and exportation), time variable and populational density considered exogenous e with 1 lag. Model (3): 2 lags for the share variable, 1 lag for the explanatory variables (human capital and populational density), time variable, physical capital and exportation considered exogenous with 1 lag. Models (4) and (5): 2 lags for the share variable, 1 lag for the explanatory variables (human capital, physical capital and exportation), time variable and populational density considered exogenous with 1 lag. Model (8): 2 lags for the share variable, 1 lag for the explanatory variables (human capital and physical capital), time variable, populational density and exportation considered exogenous e with 1 lag. Models (9) and (10): 1 lag for the share variable, 1 lag for the explanatory variables (human capital and physical capital), time variable, populational density and exportation considered exogenous e with 1 lag.

**Source:** Author's elaboration.

**Table 4 – Dependent Variable: Speed of the employment share of each sector, human capital index: Barro and Lee (2013), 1950-2010 (5-year interval)**  
**(GMM-style instruments replaced with their principal components)**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
L.Employment share	0.346 [1.63]	-0.378 [0.02]	0.359** [2.18]	0.0550 [0.32]	-0.270 [-1.55]	0.0187 [0.12]	0.0517 [0.47]	-0.0499 [-0.31]	0.269** [2.36]	0.0557 [0.29]
L2.Employment share				0.0877 [0.81]			-0.147* [-1.67]	0.0832 [0.76]	0.0681 [0.73]	-0.00507 [-0.04]
Human capital index	-0.0480 [-1.43]	0.013 [0.70]	0.00595 [0.23]	-0.0292 [-1.09]	0.0673* [1.74]	0.0539** [2.06]	-0.0238 [-1.25]	0.0529** [2.00]	0.0174 [1.37]	-0.0499 [-1.56]
Ln physical capital	0.0389 [0.81]	-0.122 [0.09]	-0.111** [-2.46]	-0.0270 [-0.56]	-0.209*** [-3.05]	-0.179*** [-3.25]	-0.0301 [-0.78]	-0.133*** [-3.27]	-0.0407* [-1.74]	0.0524 [1.12]
Ln Population density	0.0166 [0.70]	-0.005 [0.89]	-0.0142 [-1.29]	0.0734** [2.40]	-0.00724 [-0.47]	-0.00667 [-1.12]	-0.00498 [-0.53]	-0.00301 [-0.23]	0.00315 [0.52]	0.0723** [2.51]
Ln Exportation	-0.0527* [0.08]	0.004 [0.95]	0.101** [0.02]	0.0176 [0.77]	0.189** [0.03]	0.0835*** [0.00]	0.0582 [0.13]	0.105* [0.09]	0.0111 [0.39]	-0.109*** [0.00]
Time Dummies	yes	yes	yes	yes	Yes	yes	yes	yes	yes	Yes
Observations	291	291	291	282	289	281	273	273	213	266
# Instruments	38	38	46	57	42	34	52	55	46	45
p-values for										
AR(1)	0	0	0	0	0	0	0	0	0	0
AR(2)	0.153	0.153	0.975	0.740	0.772	0.701	0.697	0.495	0.547	0.400
Sargan Overid	0.135	0.135	0.318	0.228	0.265	0.148	0.344	0.127	0.119	0.417

**Notes:** Each model refers to the speed of the employment share of a sector: (1) Agriculture; (2) Mining; (3) Manufacturing; (4) Utilities; (5) Construction; (6) Trade; (7) Transportation services; (8) Financial services; (9) Government and (10) Community and personal services.  
*t* statistics in brackets, \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$

All regressions are estimated using a one-step system GMM estimator and include time dummies. Also, GMM-style instruments are replaced with their principal instruments components using the methods developed by Mehrhoff (2009); Kapetanios and Marcellino (2010) and Bai and Ng (2010) and are implemented in Stata using the command xtabond2.

Specifications: Model (1): 1 lag for the share variable, 1 lag for the explanatory variables (human capital, physical capital and populational density), time variable and exportation considered exogenous and with 1 lag. Model (2): 1 lag for the share variable, 1 lag for all the explanatory variables, time variable considered exogenous and with 1 lag. Model (3): 1 lag for the share variable, 1 lag for the explanatory variables (human capital, physical capital and exportation), time variable and populational density considered exogenous and with 1 lag. Model (4): 2 lags for the share variable, 1 lag for all the explanatory variables, time variable considered exogenous and with 1 lag. Model (5): 1 lag for the share variable, 1 lag for the explanatory variables (human capital and exportation), time variable, physical capital and populational density considered exogenous and with 1 lag. Model (6): 1 lag for the share variable, 1 lag for the explanatory variables (human capital and physical capital), time variable, exportation and populational density considered exogenous and with 1 lag. Models (7) and (8): 2 lags for the share variable, 1 lag for all the explanatory variables, time variable considered exogenous and with 1 lag. Model (9): 2 lags for the share variable, 1 lag for the explanatory variables (human capital and physical capital), time variable, exportation and populational density considered exogenous and with 1 lag. Model (10): 2 lags for the share variable, 1 lag for the explanatory variables (human capital and populational density), time variable, exportation and physical capital considered exogenous and with 1 lag.

**Source:** Author's elaboration.

The results show that, when considering the impact of the level of human capital on the speed of structural change, the sectors of Mining, Construction, Trade and Financial Services present positive and significant coefficients. In other words, for these sectors, human capital impacts by accelerating their structural transformation. The Manufacturing sector was the only sector that presented a negative and significant coefficient, in this case, the increase in the level of human capital would be contributing to slow down the structural change in that sector. The other sectors were not significant.

Comparing the results of Table 3 with the other model (Table 4) it is possible to reach some conclusions: when the speed of the added value is used as a proxy for structural change, both the human capital indices of the Penn World Table and that of Barro and Lee (2013) presented the same results, meaning that the models are robust. In addition, the Manufacturing sector presented a negative and significant coefficient in three of the four models, thus, it is possible to affirm that in fact there is a decrease in the speed of structural change with the increase of human capital in this sector. The financial sector, on the other hand, presented a positive and significant coefficient in the four specifications, so it is possible to affirm that, in this sector, the increase in the level of human capital accelerates its structural transformation.

This positive impact of human capital (regardless of which human capital index is used) in Financial Services is important because it shows that, as human capital in this sector increases, its structural change accelerates. In other words, there seems to be a movement in the analyzed period in favor of the service sectors to the detriment of the primary and secondary sectors. This movement is expected when it comes to structural change, since, with the passage of time and evolution of human capital, it is expected that the employment share and the added value share of the service sectors will increase, as these results show that, in general, countries are on a path that leads to developed and modern economies. These results corroborate those found by Martins (2019): the author emphasizes that services are the main driver of economic performance and the key catalyst for structural change.

The results altogether show that the human capital level proved to be very important to explain the structural transformation that occurred in the period as well as the rate of change of it. Thus, human capital shows itself as an important driver of the structural change that occurred in the period, which implies that countries that wish to accelerate their structural transformation must invest in increasing the levels of human capital, because following this path they not only foster economic development but reach it faster.

## 6 Conclusion

The determinants of the process of structural change that occurs in the economy have been the subject of an increasing portion of the economic literature. Human capital is among these determinants, whose role in explaining structural changes in the economy is still poorly studied. Considering this, this paper sought to find evidence to determine whether human capital is an important determinant of structural change in different sectors of the economy and whether it can accelerate the speed of this structural transformation. To answer this question, this article developed an empirical test of the model proposed by Li *et al.* (2019) using two proxies for human capital and applied the generalized method of moments to correct the endogeneity problem.

First of all, the results showed the importance of using GMM when working with human capital. By correcting the problem of endogeneity present in this variable, the results became more consistent and reliable. Also, the regressions showed that the use of different proxies for the human capital variable and for the measurement of structural change were able to present satisfactory results, which means that the results were consistent regardless of which proxy was used. Therefore, it is possible to state that the choice of different proxies for the variables does not significantly alter the results, so the choice of one or the other becomes indifferent.

Human capital has shown to have an essential role in the structural transformation process of the economy, since this has an effect on the relative participation of the sectors on total added value or on total employment. Also, human capital proved to be a potential accelerator of this structural transformation.

Special attention must be given to the financial sector. This paper provided evidence that in this sector, regardless of the proxy for human capital or structural change used, the coefficients were positive and significant, showing that, by increasing human capital levels, countries accelerate the structural change in this sector, which can be seen as the most modern and technological among the ten sectors analyzed. By accelerating the structural transformation of this sector, countries automatically accelerate their own developments, which will take them faster to more developed and complex economic levels.

Based on these conclusions, the important role of human capital is reinforced in allowing this acceleration of structural change, which indirectly leads countries to economic growth and development. Also, considering that the results were robust due to the use of various proxies for human capital, the main policy implication of this paper is that what decision makers need to consider is what kind of structural transformation they want to make in their respective countries. This is not an easy task and begins with deciding which sectors need to accelerate or decelerate structural change most. Based on this decision, investment in human capital in specific sectors is important for the effectiveness of this planned structural change.

As a suggestion for future research, it is understood as important and necessary the inclusion of squared human capital variables, as they would permit to capture non-linear relationships, as well as the inclusion, on the model, of the demand variables of the economy, as a way to expand the analysis, ensuring results that better explain the real world. In addition, it is suggested to create an index of structural change that covers both employment share and added value share in a way that allows a unified empirical analysis.

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## ANNEXS

**Table A1 – Dependent Variable: Employment share of each sector, human capital index: Barro and Lee (2013), 1950-2010 (5-year interval)**  
(GMM-style instruments replaced with their principal components)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
L.Employment share	1.086*** [19.84]	0.794*** [11.36]	0.970*** [19.89]	0.743*** [9.72]	0.623*** [3.19]	1.078*** [14.26]	0.994*** [6.26]	1.342*** [5.89]	0.984*** [12.79]	0.968*** [12.50]
L2.Employment share					0.312* [1.73]		0.0137 [0.10]	-0.419* [-1.68]		
Human capital index	0.897* [1.65]	-0.324*** [-2.95]	-0.555* [-1.65]	0.0442*** [2.83]	-0.248 [-0.97]	0.555* [1.86]	-0.0723 [-0.57]	0.158 [0.76]	0.247 [0.56]	-1.037** [-2.19]
Ln physical capital	0.833 [0.92]	0.583** [2.14]	-0.501 [-0.72]	-0.0433 [-1.28]	-0.518 [-0.97]	-0.584 [-1.19]	0.00174 [0.01]	0.173 [0.72]	0.580 [0.67]	0.614 [0.79]
Ln Population density	0.351 [1.03]	-0.0950* [-1.80]	0.0982 [0.37]	-0.0198* [-1.95]	0.425* [1.81]	-0.255 [-1.52]	-0.0336 [-0.50]	-0.0861 [-0.37]	-0.148 [-1.08]	-0.229 [-0.67]
Ln Exportation	-0.393 [-0.45]	-0.118 [-1.05]	0.521 [0.76]	0.0732** [2.29]	-0.720 [-1.16]	0.0626 [0.09]	0.222 [0.87]	0.205 [0.82]	-0.108 [-0.41]	-0.368 [-0.44]
Time Dummies	yes	yes	yes	yes	yes	yes	Yes	yes	yes	yes
Observations	316	289	316	299	301	299	291	290	233	306
# Instruments	50	46	46	46	52	38	44	39	34	51
p-values for										
AR(1)	0	0	0	0	0	0	0	0	0	0
AR(2)	0.519	0.333	0.890	0.736	0.879	0.722	0.142	0.251	0.160	0.371
Sargan Overid	0.139	0.132	0.659	0.149	0.599	0.314	0.464	0.321	0.164	0.964

**Notes:** Each model refers to the employment share of a sector: (1) Agriculture; (2) Mining; (3) Manufacturing; (4) Utilities; (5) Construction; (6) Trade; (7) Transportation services; (8) Financial services; (9) Government and (10) Community and personal services.

*t* statistics in brackets, \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$

All regressions are estimated using a one-step system GMM estimator and include time dummies. Also, GMM-style instruments are replaced with their principal instruments components using the methods developed by Mehrhoff (2009); Kapetanios and Marcellino (2010) and Bai and Ng (2010) and are implemented in Stata using the command `xtabond2`.

Specifications: Models (1), (3) and (10): 1 lag for the share variable, 1 lag for all the explanatory variables, time variable considered exogenous and with 1 lag. Models (2), and (9): 1 lag for the share variable, 1 lag for the explanatory variables (human capital and physical capital), time variable, populational density and exportation considered exogenous e with 1 lag. Models (4) and (6): 1 lag for the share variable, 1 lag for the explanatory variables (human capital, physical capital and exportation), time variable and populational density considered exogenous e with 1 lag. Model (5): 2 lags for the share variable, 1 lag for all the explanatory variables, time variable considered exogenous e with 1 lag. Model (7): 2 lags for the share variable, 1 lag for the explanatory variables (human capital, physical capital and exportation), time variable and populational density considered exogenous e with 1 lag. Model (8): 2 lags for the share variable, 1 lag for the explanatory variables (human capital and populational density), time variable, physical capital and exportation considered exogenous e with 1 lag.

**Source:** Author's elaboration.

**Table A2 – Dependent Variable: Added Value share of each sector, human capital index: Barro and Lee (2013), 1950-2010 (5-year interval)**  
**(GMM-style instruments replaced with their principal components)**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
L.Employment share	0.933*** [6.69]	0.619*** [8.14]	1.010*** [21.63]	1.045*** [9.46]	0.566*** [4.15]	0.902*** [10.91]	1.125*** [7.53]	1.052*** [4.87]	0.829*** [7.74]	0.846*** [11.17]
L2.Employment share	-0.0255 [-0.19]				0.0621 [0.58]		-0.161 [-1.12]	-0.169 [-0.90]		
Human capital index	-0.261 [-0.71]	-1.603** [-2.00]	-0.0935 [-0.26]	-0.0624 [-0.94]	0.153 [0.78]	0.314 [0.83]	-0.0927 [-0.53]	-0.249 [-0.81]	0.909* [1.88]	-0.580 [-1.26]
Ln physical capital	1.102 [1.56]	1.437 [0.99]	-0.785 [-0.94]	0.131 [1.02]	0.405 [0.74]	-0.572 [-0.75]	-0.512 [-1.19]	0.696 [1.44]	-0.825 [-1.20]	1.051 [1.51]
Ln Population density	0.363 [0.91]	-1.275*** [-3.29]	0.891*** [2.72]	0.00215 [0.07]	-0.205 [-0.99]	-0.189 [-0.91]	0.119 [1.33]	-0.847* [-1.71]	-0.113 [-1.12]	-1.006** [-2.34]
Ln Exportation	-1.068** [-2.05]	1.334* [1.84]	0.982* [1.65]	-0.0313 [-0.31]	-0.887 [-1.29]	2.149*** [3.41]	-0.0614 [-0.14]	0.752 [1.57]	0.345 [1.24]	0.741 [1.37]
Time Dummies	Yes	Yes	yes	yes	yes	yes	yes	yes	yes	yes
Observations	295	287	316	297	305	297	291	294	225	305
# Instruments	54	42	47	45	57	47	54	44	30	42
p-values for										
AR(1)	0	0	0	0	0	0	0	0	0	0
AR(2)	0.611	0.424	0.827	0.318	0.199	0.614	0.434	0.920	0.837	0.834
Sargan Overid	0.133	0.262	0.424	0.277	0.138	0.238	0.497	0.798	0.529	0.186

**Notes:** Each model refers to the added value share of a sector: (1) Agriculture; (2) Mining; (3) Manufacturing; (4) Utilities; (5) Construction; (6) Trade; (7) Transportation services; (8) Financial services; (9) Government and (10) Community and personal services.

*t* statistics in brackets, \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$

All regressions are estimated using a one-step system GMM estimator and include time dummies. Also, GMM-style instruments are replaced with their principal instruments components using the methods developed by Mehrhoff (2009); Kapetanios and Marcellino (2010) and Bai and Ng (2010) and are implemented in Stata using the command xtabond2.

Specifications: Model (1): 2 lags for the share variable, 1 lag for the explanatory variables (human capital, physical capital and populational density), time variable and exportation considered exogenous and with 1 lag. Model (2): 1 lag for the share variable, 1 lag for the explanatory variables (human capital and physical capital), time variable, exportation and populational density considered exogenous and with 1 lag. Model (3): 1 lag for the share variable, 1 lag for all the explanatory variables, time variable considered exogenous and with 1 lag. Models (4) and (6): 1 lag for the share variable, 1 lag for the explanatory variables (human capital, physical capital and exportation), time variable and populational density considered exogenous and with 1 lag. Model (5): 2 lags for the share variable, 1 lag for all the explanatory variables, time variable considered exogenous and with 1 lag. Model (7): 2 lags for the share variable, 1 lag for the explanatory variables (human capital, physical capital and exportation), time variable and populational density considered exogenous and with 1 lag. (8): 2 lags for the share variable, 1 lag for the explanatory variables (human capital and populational density), time variable, physical capital and exportation considered exogenous and with 1 lag. Model (9): 1 lag for the share variable, 1 lag for the explanatory variables (human capital), time variable, physical capital, exportation and populational density considered exogenous and with 1 lag. Model (10): 1 lag for the share variable, 1 lag for the explanatory variables (human capital and populational density), time variable, physical capital and exportation considered exogenous and with 1 lag.

**Source:** Author's elaboration.