"Rural and National Development: Is Latin America Different?"

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Chenery and Syrquin (1975) established the “stylized fact” about the evolution of the agricultural sector through the process of development, whereby agriculture’s share in national GDP tends to decline with development. Does this mean that from a policy point of view resources should be diverted from the rural economy towards sectors with apparently higher returns? In the first part of this paper we test whether the Chenery and Syquin “fact” still holds in the data, and in turn we empirically assess the second question. Some of the questions we address econometrically are: What is the contribution of the agricultural economy to national development? Is there any causal relation between the output-growth of both sectors? What is the contribution of agricultural development to national poverty reduction? For answering these questions this paper studies the relationship between agricultural and non-agricultural GDP using data for 103 countries over the course of forty years. We study causality and the economic impact of one sector into the other. Our results support the thesis that agriculture contributes to the development of the non-agricultural sector, but there is significant heterogeneity across the various regions of the world. However, our results refute the conventional wisdom that sustains that the bottom of the income distribution benefits more from agricultural development than richer quintiles. The paper discusses the main theoretical and econometric issues involved in the cross-country panel data analysis.