Spatial Structural Change

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Between 1880 and 1920, the US agricultural employment share fell from 50% to 25%. However, despite aggregate demand shifting away from their sector of specialization, rural labor markets saw faster wage growth and industrialization than non-agricultural parts of the US. We propose a spatial model of the structural transformation to analyze the link between aggregate structural change and local economic development. The calibrated model shows that rural areas adapted to the decline of the agricultural sector by adopting technologies already in use in urban locations. Without such catchup growth, economic development would have been urban-biased and spatial inequality would have increased.