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Erzsébet NEDELKA¹

Relationship between 1980s Crisis and Structural Change in Chile

The research of economic crises had their renaissance after 2008-2009 but many economists are still studying the topic even today. Most of the studies focus on the analyses of crisis symptoms and subsequent economic processes, in many cases examining only one country at a time. Just a few of them undertake long-term time series analysis or the analysis of a region. This research examines more regions dating back to the 60s and problems are emphasized on the structure of economy. One of the stages of my investigation is the South-American countries, which have already experienced crisis or crises in the 70s, 80s and 90s thus providing enough facilities to analyze certain relations between the transformations of economic structure and crises. In this short essay I present my results about the economy of Chile between 1960-1985 emphasizing the crisis in 1974-1975 and in 1982. According to this result I established that in each period structural changes were followed by crises. However structural changes (structural distortions) were not the natural concomitants of the economic growth but the side effect of the changes in economic policies.

Keywords: crisis, structural changes, Chile

JEL Codes: O11, O54, G01

Az 1980-as évek válságai és a struktúraváltozások közötti kapcsolat Chilében

A gazdasági válságok kutatása a 2008-2009-es eseményeket követően élte reneszánszát, de még napjainkban is sok közgazdász foglalkozik a témával. A kutatások többsége a válságtünetek elemzésére és az azt követő gazdasági folyamatokra koncentrál, sok esetben csak egy-egy országot vizsgálva. Hosszabb távú idősoros elemzésre vagy adott régió vizsgálatára már kevesebben vállalkoznak. Kutatásaimban egy több régióra kiterjedő, az 1960-as évekig visszanyúló vizsgálatot végzek, melynek során a gazdaság szerkezetében rejlő problémák elemzésére helyezem a hangsúlyt. A vizsgálatok egyik állomását a dél-amerikai országok jelentik, amelyek az 1970-1990 közötti időszakban átestek egy-egy vagy akár több gazdasági krízisen, így lehetőséget nyújtanak a szerkezet átalakulásokról és a válságok kapcsolatának elemzésére. Jelen cikkben a chilei gazdaság tanulmányozása során kapott eredményeimet mutatom be az 1960 és 1985-ös időszak között, különös tekintettel az 1974-75-ös és az 1982-es válságra, amelyek megerősítették feltételezésemet, és igazolást nyert, hogy a struktúraváltozásokat válságok követték mind a két időszakban. Ugyanakkor azt is megállapítottam, hogy a struktúraváltozások (szerkezeti torzulások) nem a gazdasági növekedés természetes velejárói voltak, hanem a gazdaságpolitika változásának következményei.

Kulcsszavak: válság, struktúraváltozás, Chile

JEL kódok: O11, O54, G01

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Introduction

Many theories were formed during the crisis of 2008-2009 in order to explain it. Some economists took the crisis as the attendant of the structural changes or as the earnest of the structural changes. While others are categorically aloof from this hypothesis and think that the word's "structural changes" are just a preferentially expressed excuse by European leaders, with which they protracted economic depression and restrictions are explained.

The prominent representative of the previously mentioned view is Joseph Stiglitz, who regards structural changes as an underlying factor of the crisis, which are concomitant of technological processes and globalization, but often these changes are not handled very well by the markets. He regards income inequality and supply which exceeds demand as one of the main exciting factors of the crisis. However, he takes the view that these changes could be handled by active governmental involvement (*Stiglitz, 2012*).

Krugman claims the opposite, according to him structural changes cannot be mentioned as a reason neither as the consequent of crisis. He sets out from labor market analysis and regards to it as cyclical. He debates with David Brooks and Ruth Marcus in his blog and he considers structural changes as a reason for high unemployment rate, just a "structural humbug". He draws attention to the fact that in Europe the need for structural reforms is asserted with predilection but these are actually only excuses for the prolonged economic crisis and economic troubles; and it is used as equipment for decreasing social expenditures.

In my essay I analyse the economic situation of Chile in the period of two previous crises (1974-1975, 1982) and look for the changes, which refer to structural change. I compare them with economic growth based on GDP, in order to confirm or reject my assumption.

Relation between structure change and crisis – theoretical overview

The first significant economist of the modern history who mentioned in his work that there is a relation between crisis and structural changes was *Alfred Marshal* (1920). In his theory structural change is influenced by the division of labor, which is actually a process that puts pressure on the continuous internal reorganization of production units and on the economic structure itself as well. If these changes happen too fast, institutions are not able to follow them, but as nature does not make any jumps, economy cannot do that either (*natura non facit saltum*) referring to a possible crisis. He was followed by *Fisher*, who, unlike his contemporaries and he had already forecasted the rise of service sector in 1935. In his theory the labor force and adequate capital flows at first from agriculture to industry, then from industry to service sector. This occurs because the production of industry sector increases faster than the real demand for its products. According to his establishment, this process will not be trouble-free. In 1943, Schumpeter in the *Capitalism, Socialism and Democracy* described the structural changes of capitalism as a mutation. Similarly to Young (1928), he remarked that industry continuously changes the structure of economy and as repeating the old forms thus create new ones. This process is actually nothing but the creative destruction the essential element of which is innovation, which is an indispensable factor for the "operation" of capitalism (*Schumpeter, 1943*).

Schumpeter's model was developed and expanded by *Perroux* who emphasizes inequality among economic operators. In his theory, changes, forced by innovation, have different effects on economic operators, therefore, their relations (interactions) are asymmetric and emerged balances of power are irreversible. Because of the "dominant effect" neoclassical balance cannot evolve. Instead, of it structural changes, unbalanced growth and polarization occur (*Hospers, 2004*). Kuznets, in his book entitled the *Modern Economic*

Growth considers the occurring structural changes of economies and societies as essential processes of growth. These changes show a pattern which traced out a shift from agriculture to industry and to service sector, from smaller production units to bigger ones, from personal enterprises to impersonal large economic companies and from physical work to intellectual occupation. In his study he established that the distribution of incomes modify because of the impact of structural changes, middle and upper class become stronger whose “members” are white collar workers or highly educated physical workers. The changes are so fast that conflicts evolve in the economy and in the society that has caused civil war several times in the history (*Kuznets, 1976*).

Structural changes and the concept of structure itself got a new interpretation when Dependency School appeared. This new context is the theory of centrum-periphery. According to *Raul Prebisch*, who was reckoned as the father of Dependency School, structural change means industrialization and the decrease of agricultural share; but at the same time this is a process in consequent of which peripheral countries realize their vulnerability and dependency from centrum countries. Under dependency he meant that neither political nor economic and social decisions are taken on periphery but in centrum countries which later influence domestic and foreign politics of the periphery. As Prebisch reported structural changes are not painless, but compared to his predecessors he interprets it differently. When society realizes its dependence, then it tries to give it an end but centrum countries (often) react with punitive sanctions, in extreme cases with military intervention in order to stifle it (*Prebisch, 1984*).

Sándor Lámfalussy has already called attention to the accelerated structural changes in his speech at the World Science Forum in 2005. He considered structural changes as the losing of comparative advantages of some industries which results the “releasing” of workforce in hope for better paid jobs. However, professor indicated that it would be folly to assume that this would be a quick and painless process. On the contrary, the acquirement of new knowledge, which is needed to new industry and geographical mobility involve difficulties, therefore there is a bigger need for an effective safety net in the European countries (*Lámfalussy, 2006*).

Possibility of structure change measurement

Despite the theoretical approaches and models about structural changes, only few relevant literature can be find in which authors try to demonstrate not only a time series analysis about changes in the share of main economic sectors or work out input-output tables like Leontief-model which needs a lot of statistical data about subsectors, but they also use some kind of indexes. According to the purposes of my analysis I have found two relevant indexes which are able to demonstrate the structural changes in the Chilean economy. The first one is suitable to represent the time series analyses of the changes in the share of main economic sectors. This index is called as the Norm of Absolute Value, Michaely Index or as Stoikov Index (*Michaely, 1962; Stoikov, 1966*):

$$NAV_{s,t} = 0,5 * \sum_{i=1}^n |x_{[it]} - x_{[is]}|, \quad (1)$$

where x_i represents the changes of the share of economic sectors between two period t and s . The second index is the modified Lilien Index, which dose not take the changes of the performance of the sectors, but the changes of unemployment by sectors as a base and it tries to determine the “measure” of structural changes with the following method (*Stamer, 1998*):

$$MLI = \sqrt{\sum_{i=1}^n x_{[is]} * x_{[it]} * \left(\ln \frac{x_{[it]}}{x_{[is]}} \right)^2}, x_{[is]} > 0, x_{[it]} > 0, \quad (2)$$

where x_i shows now the changes of the share of employment among the economic sectors. The result of both indexes is between zero and one, if the result is closer to zero that means no significant changes happened in the structure, while a result closer to one means bigger changes in the share of economic sectors.

World Bank ensured data for the determination of Michaely or Stoikov Index and also for modified Lilien Index. In case of the first index, I was able to collect data about the share of economic sectors in GDP until the 1960s, while data to modified Lilien index have been on since the 1980s in the World Bank Database.

I also visited the database of national statistical and government offices, in order to complement data from their databases until 1960, but my research have proven unsuccessful and I could not find any adequate ones from the previous years. However, from the aspect of my analysis it is very important that years continue each other without any bigger leaps, therefore I could not use data online since 1980 in the case of MLI. The graphical representation of results can be seen on the 1st and 2nd figures.

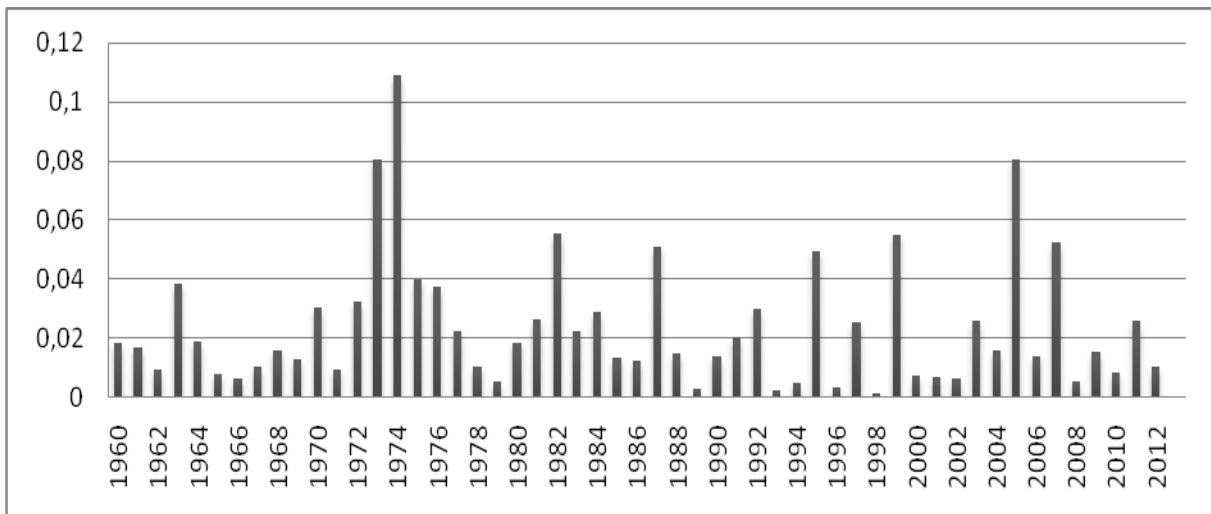


Figure 1. Michaely/Stoikov index change in Chile between 1960 and 2012.

Source: own calculation based on the data of the World Bank Database

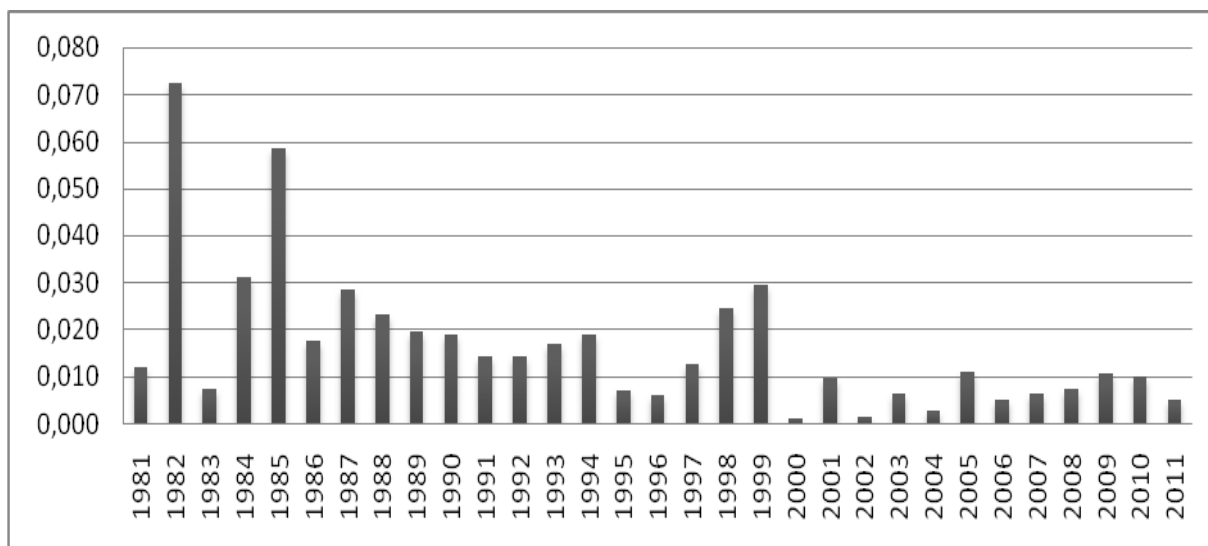


Figure 2. Modified Lilien index change in Chile between 1981 and 2011.

Source: own calculation based on the data of the World Bank Database

Structural conversions and distortions

In Chile during the 50s the service sector has contributed to GDP to the biggest scale, then industry and agriculture, but in the 70s, due to the failure of economic policy, sectoral distortion happened again. This distortion although was not as long-lasting as in the case of Brazil, but it had much bigger price from political and social aspect compared to other countries as I point out later. Chile had radical presidents since 1932, whose political view spread from communist ideology to syncretic socialism. Under their presidencies inflation has become a permanent problem, governmental spending have continuously resulted a budget deficit, which was worsened by heavy industrialization. Moreover, this industrialization resulted neither economic growth nor employment expansion, and the sector itself was not efficient either (*Hudson, 1994*). The wind of the changes was brought by *Ibáñez del Campo's* presidency². Although it was not successful from the aspect of economy but from political side a calmer period has started after his advent to power. He was also called as General of Hope. He started his second cycle with great plans; he wanted to control inflation, eliminate corruption and announced agrarian reform. However, the realization of his plans was far behind the expectations. Due to his age the real governing tasks were performed by his cabinet and this cabinet wanted to stop the devaluation of the currency by moderating money supply and by significant reduction of governmental spendings which was not only unsuccessful but resulted a slight economic fall back.³

His successor, *Jorge Alessandri* was more successful from economic aspects, but from political side he continuously lost his support. His first and most important task was similar to his predecessor to reduce inflation, which was a temporarily successful measure, because it was under 10% by 1960, but in 1963 money deterioration has exceeded again 30% and in the last year of his presidency it was above 50%. The pegging exchange rate of peso (with which Alessandri also wanted to support inflation targets) could be only temporarily maintained, because they could not manage to moderate the current account deficit, which has resulted the

² Between 1927 and 1931 he was the president of Chile again, but then he had to escape from the country and spent 6 years in exile in Argentina.

³ Based on the data of the Central Bank of Chile in 1953 GDP has increased even 5.2% compared to the previous year, however afterwards it reduced 0.4%, then 0.1% and in 1956 it has increased only 0.6%, which can be considered as stagnation.

exhausting of reserves and in 1962 the currency had to be devaluated. He had to pay heavy political price for the temporary successes, because in order to restrain inflation he has frozen the wage of public employees, which has led to general social dissatisfaction. His judgement was further worsen by the weakening of peso. For the citizens namely – because of the trade liberalization announced by him – the possibility of consumption of import products has extended, but the prices of which however has significantly increased due to the devaluation of the currency. During his cycle the national debt has also increased, because he borrowed foreign loans in order to finance his plans which seemed to be successful and would help to stabilize economy (*Ffrench-Davis, 2002*).

After the elections in 1964 Eduardo Frei Montalva has received the presidential chair, who has further continued industrialization. His government has acquired 51% of proprietary right in the American companies which controlled the copper mines in Chile. Their increasing incomes also increased the incomes of the budget. He has also supported the naturalization of several new industry, such as telecommunication or even petrolchemistry and he has encouraged the export of the products produced by these sectors. Social dissatisfaction, the elimination of income differences and the increase of the living standard were the primary goals of his agrarian reforms, during which the government has dispossessed lands with the intention to distribute them to communities and families for cultivation. However the land re-distribution has stayed far behind the planned extent and the expectations of the population and generated even stress among farmers and land-owners, the latters were namely afraid to lose their properties (*Hudson, 1994*). The land taxation has resulted further dissatisfaction among land-owners, while the wealth tax and the progressivity of the taxation system among the upper and middle-class, which was required to compensate welfare and social expenditures. The home making program, during which approx. 250 thousand houses were built for the poorest, has however burnt up significant sources, which could not be financed by the government from the earnings of the budget, so it has borrowed loans, the final results of which was the increase of the amount of the middle- and long-term foreign debt from 815 million USD to 2218 million USD during his presidency (*Angell, 1991*). His ideas to restrain the inflation were only temporarily successful. In 1964 the extent of money deterioration was 40% based on the data of the Central Bank of Chile, which could be continuously managed to moderate and in 1967 it has already approached the level of 15%. However, from 1968 it has quickly increased again and in 1969 it has already exceeded 25%, which has further reduced the support of Montalva and finally in 1970 his challenger, Salvador Allende was elected as president of Chile.

Allende did not significantly change in political direction, rather the extent thereof. The nationalization was performed in bigger amounts than before, the government has carried out significant wage increases and social expenditures were further enhanced to cut back the still significant income differences. He has also followed the health and education policy of his predecessor and land re-distribution was also part of his program (*Ffrench-Davis, 2002*). Allende wanted the bank sector to be controlled by the state, so by way of negotiations he has agreed upon the nationalization of banks with foreign owners, of course against compensation. In order to have a more strict supervision over domestic banks he has intervened in their operation referring to financial irregularities and labour problems respectively. With this action he could reach that also the local owners – due to the uncertainty occurred – have rather offered their shares for sale. In November 1971 the Financial Minister, Americo Zorrilla has announced, that actually the whole bank system is controlled by the state, which practically meant 16 banks and 90% of loans (*Larrain & Meller, 1991*). On short term the measures had positive effects and the economy has increased by 9% in 1971, the performance of industry has improved by more than 10%. It could be managed to reduce inflation to more than the half, from 35% to 16%. Based on the NAV

index, during this period an extreme change could be observed in the structure of economy, as described above for the favour of industry, which has resulted a structural distortion. The changes had also a further negative side. Both the dispossession of banks and industrial companies required significant sources, which were financed by the government from reserves, while the take-over of the debts of the dispossessed companies has increased the middle- and long-term national debt. By 1973 the system has become unworkable, inflation has exceeded 100% again, the performance of industry has shrunk by 7% and the central government debt has exceeded 20% of the GDP. Finally a political and economic crisis has broken out in Chile in 1973.

Crisis of decades

Import substitution economic policy has meant the same with intensive industrialization in the Latin-American countries additional to the total control of import, high customs and quotes. This process was strengthened by nationalization and investments controlled by the state, modifying the natural development line of economies, these have resulted structural distortion and finally generated crises. The structural changes, namely the debt stock accumulated during them has caused a crisis in the 70s in Chile at first, then in Argentina and in the 80s the problems have caught Brazil and Mexico as well.

In the case of Chile several studies deal with the crisis of 1982 (*Harberger, 1982; Diaz-Alejandro, 1985; Remmer, 1991*), but much less with the recession between 1972 and 1975. The latter is in my opinion the consequence of the structural distortions occurred prior to the 70s and during the presidency of Allende. The crisis in 1982 itself was only the consequence of the Pinochet-reforms. On the one hand the changes have happened too quick, too drastic and took big pressure on population and the welfare thereof. On the other hand privatization was not complete, due to which distortions were not completely eliminated as I explain this later. In 1973, when after a political crisis Pinochet has come into power, a radical economic policy turn has occurred upon the advice of the “boys of Chicago”. The previous import substitution and nationalization was exchanged by free market, privatization and liberalism.

Similar changes would have probably occurred at the end of the 70s and at the beginning of the 80s similar to other countries, when the constant fiscal and current account deficit and national debt become unworkable, however the military putsch has advanced reforms. Due to the presidency of Allende the share of industry in the GDP has increased from 39% to 49%, while after Pinochet has risen to power it fell back to 38% by 1975, so the 11% decrease of the GDP was greatly the reason of the fallback of industry. This change demonstrates well, what kind of effect has the structural adjustment on the economy. The leaders of economic policy have relied on the hope that economic balance will evolve because of the market mechanisms, and the structure of the manufacturing industry will change according to the comparative advantages of the country and Chile will be more competitive on the world market. However the experts have judged the price of the establishment of new balance false, the fallback has surprised them as well. The production of several industrial sub-sectors – such as e.g. chemical industry, glass production, and traffic device production – has fallen back to a bigger extent than expected, which has also entrained the failure of the planned export grew (*Bartók & Onodera, 2007*). Another reason for the export failure was the overvaluated currency, which did not reflect the actual course of exchange of escudo despite the crawling devaluations.

Based on the data of the World Bank export has increased in 1975 only by 2.35% compared to the previous years, which stays far behind the increase of 46% in 1974. At the same time against the expectations import did not decrease significantly except the crisis in

1975⁴ and until 1982 it has even exceeded export, which resulted negative balance of foreign trade and worsened the current account balance. (Looking out to South-East-Asia after the crisis in 1997 import has clearly decreased because of its negative effect, while the incomes from export has increased because of the depreciated currency, which supported the economies to regenerate. So Chile has lost this “help”, its foreign trade not only did not increase the income of the country, but resulted even capital outflow). Despite the liberalization of trade the inappropriately chosen exchange rate (policy) has finally maintained the structural distortion thereof. The other area, which has also contributed to further existence of certain components of distorted economic structure, was the state ownership. Although Pinochet has announced privatization, but it was far not as complete as originally planned by the Chicago Boys.

Allende has continued the nationalization which was started by his predecessor and even increased the extent thereof and he could obtain full control over the financial sector. However, it was contrary to the free market principles supported by his successor, Pinochet, for this reason he started to sell the state ownership – it shall be noted that privatization has represented significant income sources for the central budget, so it was also one important aspect additional to the establishment of free market. By the end of 1974 202 state companies out of 259 were returned to their original owners⁵ based on data collected by Larrain (1988).

However privatization was far not perfect. The biggest copper mining company, Codelco has remained in state ownership and although other companies have received mining permission with the purpose to support the development of the sector, the copper localities themselves remained unalienable from the state. The situation was similar also in the energetics and telecommunication sector, where the biggest companies remained further in the hands of the state. The other negative side of imperfect privatization has shown from the aspect of the employment. The governing power has eliminated those rights of both the unions and the employees which were ensured by the previous governments. In state-owned enterprises and in those companies which have become unviable because of the privatisation cut-backs were happened, therefore unemployment rate increased from 5% measured during Allende to 20%. However it did not result any significant change in the share of employment between the three sectors, the ratio of the further employed was almost equally divided among agriculture, industry and service sector. So the dismissals have affected all sectors almost in the same scale.

Additional to the high unemployment rate the living conditions of the population were worsened also by the increased inflation. One of the biggest objections against Allende was the 286% inflation measured directly prior to his overthrow, on the contrary within three months after Pinochet’s rise to power the deterioration of price level has exceeded even 500%. It has resulted in the reduction of consumption, of course, which due to the industrial output and in total the shrinkage of economy has caused the fallback of the GDP by almost 14% between 1973 and 1975 based on the data of the World Bank.

After the bottom in 1975, when the economic decline has reached 11%, it seemed that the economy of Chile has started to increase and until 1982 the average annual increase of 6.8% was considered as “economic miracle”⁶. However the economic miracle did not mean the elimination of economic problems. As stated by Ffrench-Davis (1979) in his study, this rapid increase was the consequence of export or rather the output growth of those sub-sectors

⁴ Based on the data of the World Bank compared to 1974 import has dropped by 38.67%, however in 1977 it has already produced an increase of 35,53%, which significantly exceeded the increase of export.

⁵ The companies were returned to their original owners with the precondition, that they undertake the debts accumulated by them and call off their compensation demand against every future state.

⁶ The issue of Time magazine dated January 14, 1980, the issue of Wall Street Journal dated October 5, 1979 and the issue of Economist dated February 2, 1980 indicate the economy of Chile with this attribute.

that produced export products, to which the weak currency has also contributed. The expansion of export and the weak local currency has contributed to the increase of those sectors whose products were tradable, but parallel to this the market of domestic consumer goods has decreased,⁷ affecting on the contrary with the economy increasing effect of foreign trade. So in the background of the economic growth other factors should be also involved. *Stefani Rosenfeld* (1994) assumes in her article with the title *The Myth of Chilean Miracle*, that foreign loans could be in the background of the economic growth. However, this led to the indebtedness of the country (in 1981 the whole foreign debt stock has reached 50% of GDP (*Edwards, 1982*)), which has resulted an economic bubble together with the financial speculation⁸⁹, which has finally bursted in 1982.

The crisis in 1982 was different from the recession between 1973 and 1975. The latter was a macro-economic crisis, while the one in 1982 can rather be considered financial, which has affected the structure of labour force. It seems to be proven by the fact that there was not any change in the economic structure based on the share of the sectors in the GDP, so their output has contributed to the gross domestic product to similar extent, however the employment data have indicated a structural change, which is clearly confirmed by the modified Lilien-index. The distribution of employment in each sectors has significantly changed at the beginning of the 80s, during which the ratio of industrial employees has fallen back, parallel to this the employees in the service sector has increased.

The crisis has concerned the banking sector at first. Several banks were nationalized by the government of Pinochet, in order to avoid their insolvency. (Such banks were Banco de Talca and Banco Espanol Chile, which belonged to the biggest credit institutes). Due to the appearance of speculative capital in the agriculture crisis has involved also this economic sector, so farm insolvencies have become more frequent. Due to the fallback the performance of the manufacturing industry and construction industry has also shrunk. In 1982 and 1983 the economic output has fallen back by 14% in total.

For the payback of the foreign debt stock the country needed help, however it was not a "classic" debt crisis, due to not the government itself, but the companies operating in the economy have become indebted and some of them have went bankrupt as I mentioned it as an example in the agriculture. So the government should not be made liable for the debt of companies and could not be brought to book for the pay-back of these loans. However, the government has recognized the interest of the economy itself (which meant the payback of credits) and has asked for help from IMF in order to be able to guarantee the payback of the loans which were taken by the domestic market operators. This decision was welcomed even by the International Monetary Fund itself, which was hypocrisy from the organisation, because it announced free market principles and based on this idea it would have let the companies to become bankrupt and the creditors should have booked their credits as not returned loss.

⁷ The reason for the reduction of domestic demand is further the high unemployiness and the poverty of the extent never seen before. The differences in earnings between the major part of the population and the elite have exceeded the value 0.5 of the GINI index. Although the fallback of consumption had also positive results, inflation has moderated. It was mentioned by several previously mentioned daily journals as part of the „economic miracle“, although heavy social problems were in the background. The deterioration of the price level in December 1977 has moderated to 63,49% compared to the similar period of the previous year and in December 1978 it was only 30,30% based on the data of the National Statistical Office of Chile.

⁸ Based on the data of the Central Bank of Chile the financial sector has extended by 9,3% from 1975 to 1976, then by 14,5% to 1977, 20,2% to 1978, 28% to 1979 and 22,1% to 1980, which demonstrates well the ballooning.

⁹ The speculative capital has appeared also in the agriculture additional to the financial sphere and in the period before the crisis it has led to the insolvency of some companies (Rytkönen, 2004).

However, from the assistance, which was ensured by IMF, small enterprises did not receive eminent support but the great conglomerates and international banks. While restrictions, which were required because of the loan, have worst affected the poorest. Rosenfeld (1994) mentions the reduction of the amount of unemployment benefits as an example, which could not exceed 1.5% of the GDP and 600 thousand people had to share this.

Finally due to credit exchanges and the devaluation of the currency the companies producing for export have strengthened again and in 1984 the country has already obtained an economic increase, the domestic consumption has slowly reached the level prior to the crisis. Afterwards by today the economy of Chile has represented stagnation only twice in 1999, when the GDP has changed by -0.76% compared to the previous year and in 2009, when by -1.04%, so it can be reported that in the past 30 years it has annually increased by 5.5% in the average. During these three decades extreme data similar to previous cannot be observed in the case of the modified Lilien-index and the value shown by the Michaely/Stoikov index in 2006 is not so prominent than in 1973-1974. In my opinion the observable performance of the economy of Chile since 1985 is a good example for stable and sustainable growth.

Summary

Through research I was looking and I am still looking for the answer to the question, whether – proceeding from Stiglitz’ theory – there is a real relationship between structure change and crises. I wished to confirm the fact of the structural change not only by the changes of economic sectors in the GDP itself, but I have especially attended to the chronological change of the structure of employment. The previous is analyzed with the help of the Michaely/Stoikov index and the latter with the modified Lilien-index and the extreme values of the received data were compared to the change of GDP.

During the study of South-East-Asia I have already proven the relation between crises and structure changes applying above method in the case of the four countries analyzed until now (Indonesia, Malaysia, Thailand and The Philippines) (*Nedelka, 2016*) and now Chile has also confirmed my assumption. Prior to the crisis in 1974-75 changes occurred among the economic sectors based on their share in the GDP, while prior to the crisis in 1982 in the structure of employment. These changes were not necessarily the natural concomitants of economic growth, so in that case a “creative destruction” cannot be reported. As I point out in my study economic policy turns have occurred both prior to the crisis in ’74/’75 and the fallback in ’82, which have caused distortions in the structure thereof and generated structural changes. The occurred distorted structures have finally generated a crisis, during which the formers of economic policy were forced to do corrections, helping the clearing of the structure and placing the economy into an increasing orbit again.

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