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Illusions of Market Paradise: State, Business, and Economic Reform in Post-Socialist Russia and Post-1980s Crisis Argentina

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The 1980s and early 1990s were characterized by sweeping, radical neoliberal, monetarist-inspired economic reforms designed to correct financial or structural crises. Latin American countries initiated the wave, followed by Eastern Europe and the former USSR, although the timing, scope, and policies varied. Often one reads accounts of friends and foes of reform lined up to do battle in domestic and international alliances. However, reform processes and outcomes do not always follow the formula of reformers versus conservatives; there is more to the balance of power than these all-too-common accounts would suggest. Industrial managers in the Soviet Union and post-Soviet Russia and business elites in Argentina initially accepted reforms that would soon harm them. Soviet industrial managers, with their hands on levers of Soviet and early post-Soviet production, did not wholeheartedly embrace increasingly radical economic reforms, but neither did they reject them, or prepare for the uncertainty and systemic shocks that marketization would bring. Unlike younger entrepreneurs, they did not play games of speculation to accumulate capital; rather, they played on the margins of the law to improve gains and positions somewhat. However the extent of these practices didn’t come close to guarding them against what would come. In Argentina, business elites themselves initiated economic reforms that they thought would bring them the opportunity to participate in
privatization at low cost, with high gains and increased autonomy from state regulation. In the end, however, the state picked up the reforms and expanded them, with the result that business elites faced increased competition that went beyond short-term challenges to their security.

Why was this so? With the benefit of hindsight, one would advise the Soviet managers (“Red Directors”) either to fight reforms tooth and nail or prepare themselves for the onslaught, possibly by playing the speculation game as the younger generation was beginning to do. One might suggest something similar to the Argentine businessmen. Yet seldom does this particular type of question emerge; especially in the former case, Soviet-era managers are often seen as mere rent-seekers unable or unwilling to adapt and essentially asset-stripping their enterprises to get rich quickly (e.g. Åslund 2007). This was just as often myth as reality. Using a comparison of these two groups—Soviet “Red Directors” (industrial managers, especially in heavy industry, the mainstay of the Soviet economy) and Argentine business elites (business associations representing the interests of various sectors), we will try to shed light on the processes and dynamics of radical economic change, in order to draw much-needed attention to the actions of those beneath the state elite.

**THINKING ABOUT CHANGE: ASSUMING DECISION-MAKING**

The study of reform contexts in the scholarly literature has tended to focus upon dependencies of resources, finance, and legitimacy (Haggard and Kaufman 1995; Centeno 1994a, 1994b). This follows the current theoretical trend in which the environment—be it macroeconomic forces, classes, global finance, states, organizational fields, or a combination—leads automatically to organizational decisions, strategies, and structures. Consider two competing explanations for the rise of corporate strategies and structures: either the market and financial contexts goad rational utility-maximizing managers and owners to take a particular course of action; or fields of power and meanings induce legitimacy-optimizing managers to adopt new strategies and structures (cf. Chandler 1977; Williamson 1985; Roy 1997; but see Chandler 1962). Both types of explanation downplay unforeseen outcomes or the source of decisions ultimately detrimental to the initial interests of those making the decisions. Put differently, the decision-making process that mediates between context and outcome is not sufficiently accounted for. We suggest that managers and business elites confronting reform may make decisions that ultimately prove harmful or even fatal; apparent lukewarm support for seeming reasons of gain turns out to be a bittersweet embrace of defeat. The story of reform encompasses not only the politics of implementing and resisting reform, but also the mistakes made by those who would be directly affected.

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1 This paper considers Soviet and early post-Soviet industrial managers, as they were administrative elites for real production (in contrast to state officials in the ministries or the Kremlin). We leave out agriculture for reasons of space, although our reading of Barnes 2006 suggests a similar dynamic at work.
Theory which emphasizes markets (economic arguments) or class and elites (political economy) tends to assume a rational-actor model of decision-making. In this assumption, actors evaluate the existing context (in this case, context plus proposed reforms), calculate present and future costs and benefits, and choose policies and politicians to support or to obstruct. Reform becomes bargaining between political and business elites; its outcome depends on a combination of resources, skill at using them, and contingencies (Haggard 1990; Waterbury 1992). In the end, the working assumption is that actors calculate what they have, and what gains or losses different positions might bring, and from there they act. While this model can shed insights into overt supporters, opponents, winners, and losers, it also obscures contradictory processes. Furthermore, this model of rationality may not be entirely correct (cf. Frank 1990), especially given problems of bounded rationality, decision-making heuristics, and cultural categories and practices through which actors interpret and act upon perceived environmental “data” (Guillén 1994; Hass 2007; Fligstein 1990). A reliance on rational choice in institutional and structural contexts oversimplifies how actors come to interpret those very contexts and act upon them. A particular problem is reading back into decision-making: we see policies and outcomes, and then we read backward to figure out just what the initial interests and opportunities were. An alternative draws on path dependency: actors continue to reproduce previous actions because of existing institutional and structural constraints (North 1990; Somers 1998). The problem with path dependency is that it can explain why change does not occur, but then faces problems when change actually occurs. Relying on irrational managerial decision-making, or illusory rationality at the moment of decision-making, can only take us so far. A game-theoretic analysis would deepen insights; but game theory is better adapted to making policies themselves (e.g. auctions). In addition, while game theory often adds to context, it frequently does not contribute anything to the gamers’ heuristics.

One possible direction opens up the decision-making process. In “garbage can theory” (Cohen, March, and Olsen 1972), decisions reflect inputs from various actors, negotiated according to internal organizational politics. Considered as the place where decisions are made, organizations are “intendedly rational” (March and Simon 1958): rather than being based on rational calculation, decisions are the result of fairly stable behavior and structured roles and tasks (Perrow 1970). Also, within the limits of the organization, decision-makers routinize certain processes, creating erroneous interpretative “frameworks” to identify problems and solutions. The rules and frames become patterned and normalized deviance, producing failures in the system (Vaughan 1996; Eden 2004). The relevance of this is that frames of reference of the elites and managers matter. It is a fact that managers and business elites, when potentially threatened by liberalizing reforms, may in some circumstances choose to go along with those reforms, succumbing in a way which, while it might bring short-term gains, may have longer-term dangers. In order to comprehend this phenomenon more clearly, we turn to the frames through which Soviet managers and Argentine business elites operated. We compare processes of reacting to market-oriented reforms in Russia and Argentina. Both cases differed along several variables.
Among others these include: degree of preexisting capitalist structure and practices (greater in Argentina than in the USSR and post-Soviet Russia); size of the state and state repressive capacity and thus the potential to enforce radical reform (greater in the USSR than in Argentina), followed by the degree of state weakness (greater as the Soviet Union unraveled in the late 1980s); position in the global economy (the USSR having more freedom of maneuver); and degree of economic militarization and structural deformation. Despite these differing characteristics for each case, through the method of contrast we can pinpoint similarities in both countries that account for similar decision-making by economic elites: namely, that said elites viewed reforms in a similar fashion, as the best answer for the critical economic situation—although the notion of “crisis” was different in each case. And in both countries reforms were not just the result of external pressure, but were supported to varying degrees by economic elites.

THE MODEL: STOCHASTIC LEARNING, AMBIGUITY, EXPECTED FAILURE, AND EXPECTED AUTONOMY

These puzzling similarities in how managers and business elites acted, embracing reforms that ultimately would threaten their very statuses and positions, suggest that a pure rational-choice approach to decision making, as often employed, will not work to explain the decision-making process followed by these actors. Neither will a path-dependent approach, as these economic actors did follow on reforms initially. We propose that actors followed a stochastic learning model. Actors were rational, but that rationality was bounded within routinized knowledge and three sets of perceptions and expectations. Stochastic learning suggests actors anchor decision-making in what they know through experience, routines, and categories through which they filter knowledge. Three aspects of their perceptions and information add to our story: ambiguity of reform logics; expectations and assumptions from previous experiences of reform failure or likely gains; and a narrative of empowerment through reforms with regard to state economic hegemony, creating an incentive to support reforms to improve managerial or elite autonomy. These latter two factors involved interpretations and extrapolations of previous experiences, that is to say, path dependency. What links these together is how managers’ and elites’ previous experiences with reforms and state policy-making created knowledge and expectations of how changes would unfold.

KNOWLEDGE, HABITUS, AND STOCHASTIC LEARNING

The rational choice assumption is that actors calculate individual situations fairly objectively (information costs aside) and assess each fresh situation anew. While they can learn over time, such learning is primarily the addition of facts or skills; this is assumed to be straightforward. We take an alternative approach to help explain the paradoxes we raise above: this combines a Bourdieusian logic of knowledge and habitus with the “stochastic learning model” (Bush and Mosteller 1955; Macy 1989). First, experience builds up in “tool kits” of strategies, interpretations, and tactics (Swidler
that are organized according to relational logics, what Bourdieu calls a *habitus* of expectations and strategies (Bourdieu 1990). This alternative has been applied to organizational structures to explain dynamics and timing of successful and frustrated change and continuity (cf. Hallett 2003). Organizational and field experiences provide not only knowledge of “the business game” but also expectations and a template for the construction of strategies for new situations.

This relates to the second half of our alternative, stochastic learning. Perceptions of what to expect in new contexts, such as proposed economic reforms, are not based on the strictly rational calculation one often meets in economics and some of the political science literature. Rather, calculations of future costs and benefits are shaped by extrapolations from past experiences. These extrapolations are a primary source of data and experiences for the actors, and they color the categories and logics which actors employ to make sense of current contexts and possible changes. This makes seeming irrationalities rational: if past experiences are a result of “bad sampling,” irrational strategies seem rational to the actor who has sampled badly. This is related to what Tversky and Kahneman (1974) called “anchoring and adjustment”: actors take some initial or base estimate (the anchor) about a social situation and then adjust it as new data come in. Calculations of a present situation are biased by that initial anchor. If past experiences are stored in “tool kits” and become part of *habitus* and stocks of tacit knowledge, contributing to assumptions about how the world works that we do not question (Nelson and Winter 1982), then actors’ reactions to present situations are biased by the past, unless the present situation is clearly demonstrated to be an entirely new challenge.

In sum, rationality is conditioned by heuristics, schemas, and extrapolation from past experiences, rather than from purely present contexts—the rational actor has historical baggage, i.e. knowledge gained through experience that actors reasonably extrapolate. Extrapolation need not be deterministic: reforms that are clear and backed up by sufficiently obvious power (e.g. a ruling party with a sizable electoral mandate or the means and will to employ violence) might force actors to consider the possibility that past lessons no longer hold. On the other hand, if articulated changes are ambiguous and fuzzy, actors are more likely to read the past into the present.

**Ambiguous Reforms**

Agents react to proposed changes based on what they see and how it relates to what they have seen. Reforms that are not initially clear or are ambiguously proposed leave room to read past tendencies into future policies and changes. This is an important issue that is skirted around by much political economy theory. New institutional economics does posit “information asymmetries” and “information costs,” but these assume concrete information to be discovered. Ambiguity suggests the existence of more noise than discrete data, and that actors interpret that noise. This makes stochastic learning more problematic: when the content of reform is unclear or the probability of concrete outcomes is low, actors are more likely to anchor perceptions and decisions in past events and experiences and extrapolate into the present and future. Thus, ambiguity further increases the likelihood that
actors could make a decision that at the moment seems to be in their interests but which will ultimately be to their detriment (e.g. the lukewarm or partial embracing of reform, rather than taking greater advantage of it or positive action to resist or weather it).

Three different sources can be identified in order to understand ambiguity. First, reforms were in fact vague and unclear, as political elites proposing reforms might not be entirely clear of what they wanted or how to get there, or because reforms develop in a piecemeal, even reactive or seat-of-one’s-pants manner. If political elites underestimate the degree of reform needed, initial reforms might end up too conservative, forcing elites to shift the degree or focus of reforms. The second source of ambiguity was the cacophony from the political elite; the elite did not speak of reform with the same voice, leaving business elites, managers, and others to guess at what they should expect. Finally, the third source was inherent in market-oriented reforms and then more difficult for reformers or managers to avoid: market reforms, and markets themselves, involve uncertainty about outcomes and even processes of negotiation and exchange (Centeno 1994b). By providing autonomy, a market economy makes it difficult to predict with great certainty who will win out in economic competition. Unless a wide number of variables are controlled by a small number of organizations, some randomness enters the economic context. Despite attempts to foresee the future (e.g. through marketing), it is certainly possible for actors to misjudge demand, lose important customers for various (including non-economic) reasons or face sudden obstacles (acts of God, labor problems, etc). Liberalizing an economy involves institutionalizing uncertainty. The urge to anchor and extrapolate becomes that much greater.

**EXPECTATIONS OF FAILURE**

If economic elites expect reforms to fail, they are less likely to take them seriously or expend time, social capital, and other resources mobilizing to resist or co-opt them. The crucial question, then, is why these actors would expect failure. Initial ambiguity is not unimportant, but in itself it is neither necessary nor sufficient. Two other factors shape expectations of failure. The first is past experience with reforms; the second is perception of the desire, will, and capacity of the political elite to enact fundamental changes successfully. If the economic elite sees sufficient continuity in the leadership, and that leadership has a history of imperfect reform, it is not irrational for it to expect continued failure. Experiences of previous attempts at and failures of reform increase the likelihood that managers and business elites will not see reforms as potential challenges. This holds true unless there is a clear and powerful initial signal that a reform leadership and its context are sufficiently different from past contexts that “conventional wisdom” will not hold true. If managers and business elites expect failure, then it will not be rational to invest in adjusting to possible changes resulting from reforms: either they can maneuver and make marginal gains, or they will be forced to resume the **status quo** after inevitable failure. As a result, actors are not ready to confront challenges if fundamental change does result.
Expectations of failure might come from several sources: from infighting at the top, in which case reforms are scuttled or delivered in a confusing condition (we will return to the related issue of ambiguity); from the impossibility of implementation due to contradiction with other existing core aspects of economic institutions and structures; or from resistance by managers, business elites, and other functionaries themselves. If such managers and business elites are engaged in passive resistance, they might expect reforms to fail, thus reducing perceived incentives to take fuller advantage of reforms, in order to brace themselves for greater future shocks, or to increase resistance.

**PERCEIVED OPPORTUNITY FOR AUTONOMY**

The discussion thus far suggests overwhelming incentives to do nothing in the face of perceived ambiguity and expectations of failure. However, there might be incentives to embrace such changes despite these negative perceptions. If an arrangement of economic structures and state power constrains economic actors, then reforms that initially (even ambiguously) suggest improved autonomy is likely to be embraced to some degree. In this respect the logic of neoliberal-style reforms creates a dangerous illusion: by potentially promising autonomy, initial stages of market or pseudo-market reforms did provide most elites with early gains resulting not from economic advantages but from the initial possibility of taking advantage of opportunities in deficit economies (e.g. by raising prices or increasing output). This contributed to the illusion of market reforms as inherently positive, even if doomed to fail. The experience of the Soviet managers was that the planned economy was inefficient, and managers did not particularly like having to deal with state ministries to alter Plan targets or to obtain deficit materials (which they did through the shadow economy as much as through formal supply). In the Argentine case the crisis of the state is key to explaining business strategies: business noticed that the state would not be able to continue subsidizing local investments in a context where external debt imposed great pressure on fiscal resources. Under these circumstances, the reforms, especially the privatization of public enterprises, were seen as an opportunity for making new and more lucrative business.

This point is critical to our analysis. So far, the stimulus is for managers and business elites to do little when faced with unclear reforms which they believe to be doomed to failure. Neoliberal reforms that clearly might promise competition and market exit, backed by a regime with the will and power to enforce changes, might lead to resistance. Unclear reforms that ultimately might fail, but that also promise some degree of autonomy, prompt agents to go along with reforms *that ultimately might hurt them*. How, in this hypothesis, would such reforms be to their detriment? The answer is that such damage occurs if, by focusing on smaller gains in autonomy, such managers and business elites neglect to set up defensive or offensive strategies to guard or expand their positions in case of increasingly radical reform. Put differently, these managers will be harmed by the fact that, rather than using reforms to enhance their ability to accumulate profit and reinvest it for further accumulation (the driving logic of capitalism according to Marx and Weber), they have used the
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opportunity not only to gain quick profit via asset-stripping or playing on the margins of law—this is the usual story one hears in discussions, the media, and even scholarship (e.g. Kotkin 2001)—but also to increase autonomy. Rather than taking risks, engaging with reform and even pushing it further (as other elites, for example financial elites and “oligarchs” in post-Soviet Russia, might be expected to do), these managers will suffer from focusing on gaining ground for themselves in the expectation that when the reforms fail, they will have gained a foothold of additional decision-making authority.

TO THE DUSTBIN OF HISTORY? SOVIET MANAGERS, ARGENTINE BUSINESS, AND REFORMS

Import-substitution industrialization (ISI) and increasing external debt led Argentina to a seemingly inextricable economic muddle by the 1980s. The Soviet economy was faced with difficulties from out-of-date technology, expenses incurred in foreign policies, and a growing dependence on petrodollar income; by the 1980s the Soviet leadership as well faced growing problems with economic regeneration alongside American rearmament. Economic tribulations in Argentina and the Soviet Union, from debts and decreasing petrodollars, but also from increasingly rigid state-centered economic structures, made the perpetuation of the status quo difficult. This forced political and economic elites to recognize the potential necessity for something more than marginal reform. Emerging factions of reformers within the regime and state, and within think tanks and other bodies contributing to internal (even hidden) discourses, increased the likelihood of at least an attempt at fundamental change.

MARKET REFORM FOR THE UNINITIATED: THE SOVIET CASE

As a detailed discussion of Red Directors’ initial conditions and various decisions made over this period would make this article unwieldy, we present only a brief overview. Two obvious questions are whether Red Directors had real choices and whether they were really at risk from increasingly radical reform. As to the first, the power of the ministries to compel managers to act as the state wanted was problematic to begin with. Brezhnev’s political compromise with managers and various levels of state bureaucrats (Bunce 1983; Millar 1985) might not have provided the kind of autonomy managers might have in a capitalist system (even where managers are not owners). However, it did provide a social contract of sorts, in which managers (like other state functionaries) followed the general Party line and did not resist authority above them, and were rewarded with relative security in their positions. Industrial managers did have to orient decisions and behavior to the Five-Year Plan and monthly plans, but they were not punished with bankruptcy (as in capitalism) or coercion (as under Stalin). Red Directors could play games of informal or passive resistance, foot-dragging over Plan fulfillment or supply and utilizing informal networks to pressure higher-up elites in the ministries and the Kremlin to water down various reforms, as happened in the 1960s and 1970s (Arnot 1988; Åslund 1989; Nove 1977). By the
Gorbachev era, state power was beginning to crumble from reduced surveillance and accountability of officials, and then from “bank runs” on state resources (Solnick 1998). Managers did not have a totally free hand to do what they wanted. They still had to play a complicated pricing game involving semi-independent daughter firms and commodities exchanges (the birzha) to find private partners, as we explore more fully below. Further, managers had to offer employees the chance to vote on enterprise reforms, including turning shop floors into semi-independent smaller firms or leased firms (cf. Hass 1998: chapter 4). In addition, Red Directors were not property owners; they still answered to the state, even if state representatives or local officials were silent partners.

Did Red Directors face a real threat from fundamental economic reform? Even at that time, optimistic as they might be, industrial managers had evidence that fundamental reform would create serious problems. After 1989 and the loss of captive clients in Eastern Europe, Red Directors in electronics, metallurgy and the like faced reduced exchange and export—and if state subsidies were to decline, this would pose an ominous problem. The replacement of the rigid Five-Year Plan with its secure state subsidies with the system of goszakazy (subsidies and planning through concrete state purchase orders) increased uncertainty vis-à-vis needed output and likely income.2 While many Red Directors articulated (ill-founded) optimism about the competitiveness of their goods (cf. Hass 2005), travels abroad or initial imported consumer goods should have convinced them of their weak position. Even in 1995, two electronics firms in Saint Petersburg continued to express pride in their output (VCRs, telephones and the like) despite clear inferiority to Western competitors.3 A competitive market, reduced state support, and an emerging reformist movement inside and outside the Communist Party should have been clear signals that Red Directors were potentially vulnerable.

What is interesting, therefore, about the Soviet managers is that the predicament in which they ultimately found themselves was due to their having taken a middle-of-the-road approach to reform. In the late 1980s, while younger engineers or Komsomol activists were setting up small independent cooperatives to speculate using deficit goods—and reinvesting profits into further speculation or small-scale production of various goods and services (cf. Gustafson 1999; Listovskaia 1994)—Red Directors were playing a muted speculative game for a small profit, which they then failed to reinvest to improve gains or prepare themselves for shocks. Red Directors set up small independent firms to milk state-owned enterprises, but if the mother enterprise

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2 For a detailed recounting of these problems for one industrial firm, see Leningradskii stankostroitel’, January 20, 1993:1. Leningradskii stankostroitel’ was the enterprise newspaper for the Sverdlov machine-tool enterprise. Considering that its journalists were fairly open in reporting worker discontent with and harsh criticisms of management, it is doubtful that enterprise journalists would lie about finances.

3 This is from Hass’ interviews (Saint Petersburg 1995) with the general director and sales director of one electronics firm, and with assistant directors of sales and marketing at another. Enterprise newspapers at both firms continued to claim their electronics output was as good as imports (cf. Hass 2005 for detail).
collapsed, they had no fallback position. Consider the use of the birzha (Soviet stock exchange). A state-owned enterprise or its daughter would bring materials to the birzha, originally obtained at low state-set prices, and exchange them for other goods or sell them to private cooperatives or semi-independent daughters of other enterprises at higher “market” (negotiated) prices. This provided some profit, but Red Directors stuck with these basic tactics to generate wealth, not to increase value or to increase accumulation of wealth. They did not set up stout defenses against reforms even as time went on; the best they usually did was to support lobbying groups and parties (e.g. Arkadii Vol’skii’s Civic Union) or play a dangerous game of chicken with the state, running up debts and delaying restructuring in hopes that the state would rescue them to avoid massive unemployment (Dolgopiatova 1995).

While managers in charge of natural resource extracting enterprises had goods with more demand outside Russia, managers of enterprises in heavy industry, machine-tool production, electronics, textiles and the like had far fewer real assets to strip. Technology was old, materials were needed for either production or barter, and managers needed to provide their employees with something if they could not pay wages. Many of these “Red Directors” ended up in the precarious situation of value-destruction and the need to participate in the barter economy to survive (Gaddy and Ickes 2002). If a few managers could strip assets to increase wealth temporarily, many more found themselves and their enterprises in trouble; eventual insider privatization there may have been, but the wealth stolen in the process may be as much myth as reality.

**AMBIGUOUS REFORMS AND UNCLEAR FUTURES**

In hindsight, it appears inevitable that Soviet economic reform would be ambiguous. Gorbachev’s own policy desires changed over time, from marginal change, to increasingly radical change, to a last-minute stepping back, especially as Boris Yeltsin’s star rose higher, legitimating increasing radicalization of political and economic reforms. Gorbachev’s Kremlin administration was split over what kinds of reforms were necessary (with Gorbachev wavering between camps). The initial Gorbachev-Ligachev duumvirate created increasing tensions over the direction of reform, with Gorbachev favoring faster reforms and of greater depth than the more conservative Ligachev. But after Ligachev was essentially sidelined in 1988, Boris Yeltsin began his drive for power. This increased the cacophony at the top, leaving Red Directors confused and liberated: it was unclear which faction would eventually win out, and the legal confusion gave them de facto autonomy to run enterprises as they saw fit. Finally, market economies have a degree of in-built ambiguity and uncertainty; creating a market where it essentially had not existed—had in fact been anathema—meant accepting this ambiguity and uncertainty as a core feature of the new economy.

In the Soviet Union, the piecemeal style of reforms, from granting more autonomy to enterprises in 1988 to liberalization and shock therapy in 1992, meant there was no single package with a clear logic of unfolding or definite end result that Red Director managers could interpret or resist strongly. Industrial managers could engage
marginally (not always proactively), until the economy began to unravel and radical liberalizing reforms appeared the only way out. Given that Gorbachev’s own ideas on policy shifted as initial, cautious reforms went nowhere, and bearing in mind the battles he had to fight in order to overcome opposition within the higher ranks of the Party and state bureaucracy to anything beyond cosmetic reforms, this is no surprise. When Mikhail Gorbachev set out to improve the Soviet economy, he picked up Yuri Andropov’s reforms to improve labor discipline. This included crackdowns on labor shirking (e.g. raiding movie theaters during the day and checking people’s labor books to make sure they were not supposed to be at work) and destroying vineyards or reducing vodka output to address alcoholism. Gorbachev also introduced khozraschët, enterprise cost-accounting, and legalized cooperatives within tight restrictions. Both of these minor reforms brought little change. As the Soviet economy continued to worsen and democratic reforms began to take root in the form of media openness or glasnost’ and later in semi-contested elections to the Supreme Soviet, discussions of reforms expanded. Gorbachev’s next set of reforms involved giving more decision-making autonomy to enterprises, the most important policy being the 1987 law “On Enterprise.” Goods and commodity exchanges (birzha) were legalized so that managers could formally exchange goods—the hope being that this would reduce supply bottlenecks that continuously plagued the Soviet economy. Five-year and monthly plan targets were replaced by goszakazy, state purchases. Finally, managers gained more decision-making autonomy to restructure their own enterprises, e.g. turning shop floors into financially independent daughter firms (cf. Hass 1999).

If anything, managers had been turning toward Gorbachev’s style of reforms, which positioned a weakening state, vulnerable to being taken advantage of by Soviet enterprises, at the center of the economy (cf. Burawoy and Krotov 1992). Several tactics made it fairly clear that managers were taking advantage not only of what reforms offered, but also of the ambiguity inherent in those reforms. One clear example is how industrial managers often (but not always) used the birzha. The original intent of birzha reform was to reduce supply bottlenecks, the thorn of the command economy, by allowing managers to come together and exchange needed goods without state interference or bureaucratic obfuscation. And in fact some participants did use the birzha in this way. One group of entrepreneurs interviewed by one of the authors in Russia in 1995 worked at one commodities birzha, exchanging timber products for firms that needed to unload or obtain such goods. However, state law did not stop managers from using the birzha in other ways: here the ambiguity of reforms affected how managers (rationally) behaved. One tactic was to use the birzha to trade goods obtained cheaply from the state and sell them at higher prices, and then pocket some of the gain personally (Sokolin 1997; Kotkin 2001). In this way, inherent ambiguities in reforms led industrial managers to perceive a moment at which they could gain. Thus they accepted reforms and participated in them, without expecting that the reforms would become more radical. These ambiguities did not alarm managers until it was too late. Certainly some actions in the birzha or cooperatives produced value; enterprise newspapers in Saint Petersburg from this period are full of accounts of cooperatives producing consumer goods or providing
industrial services that were needed but difficult to obtain. But the ambiguity of reforms meant that industrial managers could play on the margins of the rules and intended reforms—as it was not clear just what, specifically, Gorbachev and his government intended anyway, or how long they would remain in power as political tension began to rise. Too late, these Soviet industrial managers began to understand the quandary they would face as 1991 came to a close and as shock therapy took effect in 1992. Several Petersburg factory newspapers featured employees’ and managers’ worries on the eve of 1992: the previous year had seen the economy and polity fragment, and the promised radical reforms by Yeltsin and company now aroused trepidation, where earlier Gorbachev-style socialist liberalization from the Plan and ministries had brought relief. Initially managers embraced liberalization, for it meant dealing directly with purchasers and setting their own agenda for output, pricing, and whom to do business with. However, these post-Soviet managers soon learned that this freedom applied to others as well; by losing the control of the Plan, they had also lost its security, as traditional purchasers decided to go elsewhere or stopped buying altogether.  

**EXPECTATIONS OF FAILURE**

The upshot of the stochastic learning model for this concrete case is that if Soviet managers expected failure, they would not take seriously possible threats that market reforms, *in theory*, would present—because they had not seen the “theory,” only past practices. Future oligarch Mikhail Khodorkovskii noted this when Gorbachev’s reforms began to unfold. Khodorkovskii himself saw the opportunity to use liberalized exchange, rubles and hard currency rights from the Komsomol (Party youth organization), yet the manager of the research institute where Khodorkovskii worked would not make use of entrepreneurial opportunities to make profit himself, even though he supported Khodorkovskii. His rationale: he had seen reforms come and go, and so was hesitant to invest personal effort and organizational resources into semi-legal ventures that might become illegal before long (Hoffman 2002:107). It is hard to fault Soviet managers for such skepticism. While Mikhail Gorbachev’s image was that of a younger, more dynamic leader, in contrast to the geriatric conservative wing of the Soviet Communist leadership, he nonetheless shared collective leadership with conservatives; in addition, there was a history of younger new leaders (Khrushchev or Kosygin) not living up to reform hopes. Khrushchev’s economic restructuring was ultimately reversed after it created resistance within the Party and state bureaucracy (Nove 1972). The Liberman reforms of the 1960s, championed by Aleksei Kosygin, promised to alter the workings of the Plan, by focusing on actual use value added to production, i.e. a measure of pseudo-profit from actual use and demand of output. While not “market” in the usual sense, the Liberman reforms

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4 For survey data from managers on this issue, see *Rossiiskii ekonomicheskii barometr*, issues 4/1992 and 2/1993. Managers were disturbed that when all managers received market freedom to buy and sell, this also meant that others could reject their output—leaving all worse off than under the Plan, when at least output was shipped off and paid for.
promised both opportunity and discipline. However, these reforms tailed off once their champion in the Kremlin, Kosygin, lost the competition for power to Leonid Brezhnev. One other attempt at reform, the reforms pioneered at the Shchëkino Chemical Combine, promised more autonomy in how enterprises could use their wage funds, allowing them to keep some profits from efficiency gains. The experiment continued through the 1970s, but it too faced obstacles from state bureaucrats and from managers of enterprises not involved in the experiment, who possibly felt threatened by improved efficiency at the Shchëkino Combine and other participating enterprises. Like the earlier reforms, this one too stalled (Arnot 1988). Even discussions of reforms in the late Brezhnev era may have added more Plan indicators for managers to account for and for Plan bureaucrats to work with—but these ultimately brought little real change to the economy (Åslund 1989).

The upshot: support for unclear reform was possible because it was based on vague and abstract proposals, and upon the expectation, extrapolated rationally from past experiences, that there would ultimately be no fundamental change. Managers believed they would not be exposed to market competition and discipline, or the kinds of initial sales and financial shocks usually associated with the first phase of radical liberalization and privatization. In fact, some analysts claimed managers still expected reforms to fail in that first watershed year of 1992. Red Directors reacted to initial hard-budget policy by continuing to put in purchase orders and produce outputs despite problems of payments and rising debts. Skyrocketing inter-enterprise debt (Ickes and Ryterman 1992) threatened to bring the suffering Russian economy to a standstill, and on this “game of chicken” interpretation, managers would force market reformers to go back to the soft budgets of the anti-market Soviet system (Dolgopiatova 1994). Even after 1992, such expectations persisted. In her study of Red Directors in the early years of post-Soviet change, Belianova (1995) found that Red Directors’ attitude toward the economic crisis shaped their own reforming strategies vis-à-vis their home enterprises. Optimistic managers, who believed reforms might actually reduce the crisis before long, were more likely to follow the intention of those reforms and introduce relatively more encompassing changes in organizational structure and product output. Those Red Directors more pessimistic about the success of reforms and the end of the crisis were more likely to play it safe and maintain the structures and product mixes that the Soviet era had bequeathed them.

**OPPORTUNITIES FOR AUTONOMY**

While Soviet managers had little faith in ultimate fundamental reform and were less willing than younger employees and Komsomol activists to pursue entrepreneurial activity—even if potentially lucrative and involving speculation for profit—they were nevertheless able to see reforms as an opportunity to gain and, hopefully, hold on to some autonomy. There were two sides to this desire for autonomy. The first was that managers were agents for the state and were subject to detailed Plan targets and procedures. Secondly, many managers realized that the Plan-based economy was inefficient, and saw that market-based reforms, even if ultimately watered down, could free them from the seeming paradox of producing goods whose use they questioned.
and whose users often they did not know. Thus, the possibility of market-like reform brought the chance for formal autonomy vis-à-vis the Plan. Interestingly, this dovetailed with the informal logic of the Brezhnevite Soviet economy and the “little deal.” Members of the Party and state bureaucracy, including managers, had some informal autonomy in return for not rocking the boat of the Brezhnev regime (Millar 1985; Bunce 1983). Brezhnev’s “little deal” should not be interpreted as managerial license, but rather as an informal incentive not to challenge the supremacy of the regime. This is indicative of the fact that, as noted earlier, managers did realize the inefficiencies and even irrationalities of the Soviet economy.

Past experiences (cf. Breslauer 1982; Katz 1972) suggested that reform would fail, but that managers might be able to take some advantage for quick and marginal autonomy. Gorbachev’s reforms of enterprise authority, the legalization (within limits) of the cooperative, and the later legalization of the birzha were a demonstration that, even if this set of reforms were to fail, managers had an opportunity not seen in the 1960s and 1970s for autonomy which implied gains for them; even if the clock turned back on such autonomy, it seemed that managers would at least have temporary benefits. Red Directors’ tactics suggest that they took advantage of autonomy, supporting this aspect of reforms only insofar as it did not threaten their security, a danger which they did not suspect in the late 1980s, as Gorbachev’s reforms evolved. The “On Enterprise” reform and a host of smaller decrees made it possible for Red Directors to open cooperatives or transform shop floors into semi-independent small or leased firms; these groups had the opportunity to produce beyond the Plan and goszakazy for profit (often for other cooperatives and small firms). A case in point was Leningrad’s (Saint Petersburg’s) Leningrad Metal Factory: a cautious introduction of autonomy to cooperatives was rescinded; instead, the enterprise’s managers turned some shop floors into “small firms” (malye predpriyatiia) under managerial control. The use of the birzha to obtain needed deficit materials as well as to improve profit for cooperatives and managers has been discussed. This was an exercise in new-found managerial autonomy gained by playing the margins of legality. Another example of managers grasping autonomy was voluntary associations. These were groups of firms in related production and often from the same ministry or local-level glavk (regional equivalent of a ministry). After the end of the Plan structure and the introduction of goszakazy, supply bottlenecks and financing became worse. To support their enterprises financially and materially, and thus to support their own positions, Red Directors often engaged suppliers and partners directly.

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5 This comes from interviews Hass conducted at twenty Petersburg electronics and industrial enterprises in 1994–95. All mentioned Plan irrationalities, and the fact that reforms freed them from producing output that often had no real value other than legitimating the Plan. (They were all also critical of Yeltsin for reducing state subsidies and introducing problematic or unjust privatization, and they were critical of younger entrepreneurs for becoming wealthy via “speculation” rather than by adding value productively.)

rather than through the medium of the ministries. This provided several advantages to managers vis-à-vis autonomy. Red Directors were now dealing directly with supply partners, not through the state. By the 1990s, younger experts at these voluntary associations would organize lobbying efforts and analyze strategies for improving sales and seeking finance. For example, a Petersburg voluntary association for major bread firms helped those member firms coordinate supply for production and mediate disputes; in the early 1990s the association hired newly-trained experts in finance or with experience in supply and exchange to organize privatization plans and to begin marketing projects.

Voluntary associations did help member firms survive, but they also allowed member managers to hold the illusion that they could weather the storm and emerge safe and healthy within a few years. Some associations created pocket banks—banks created with association money and attracting deposits by citizens and private firms. However, by 1993 some pocket banks were having trouble supporting their associations or were demanding higher interest rates for loans to their very founders. Further, these associations kept member managers locked into their previous production, which often became value-destroying, especially for heavy machinery and electronics. The voluntary associations, which initially cemented newly-gained autonomy from direct state control, trapped managers into producing old goods for each other. Contrast this with younger financial elites and oligarchs in the early 1990s. These financial entrepreneurs made fortunes speculating with deficit goods or in currency; unlike Red Directors, they took full advantage of liberalization to trade in whatever they could, reinvesting some of their profits into further exchange or even production. Their empires were increasingly diversified, reflecting a logic not of grabbing some initial autonomy and defending it fiercely, but of taking advantage of changes and investing wherever money might be made (cf. Starodubrovskaia 1995; Pappe et al. 1997; Gorbatova 1995; Prokop 1995). In contrast to Red Directors, these younger entrepreneurs proactively engaged reforms.

We do not want to suggest that Soviet industrial managers were ecstatic about the possibility of market-style reforms of any shade. Confronted with a context in which they had to generate their own sources of income as state subsidies dried up or “disappeared,” managers discovered they did not always have the necessary human capital or practices to adjust (Hass 2005). However, they had embraced possibilities for autonomy in the birzha and enterprise reform. Paradoxically, this occurred through no organized resistance; they participated in carrying out Gorbachev’s reforms, taking autonomy but resisting accountability—a practice that continued into the

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7 Managers at electronics and lathe-making firms in Saint Petersburg (interviewed by Hass in 1995) noted that they often knew whom they were supplying or being supplied by.

8 These data came from Hass’s interviews with bread enterprise managers and the head of marketing for the Petersburg association of bread-makers.

9 To use the example of the Sverdlov machine-tool enterprise: managers here helped create pocket banks to help them survive initial financial turbulence. But before long, the pocket bank was demanding higher interest rates (Leningradskii stankostroitel’, September 9, 1992:1, and July 13, 1993:1).
1990s, as managers used networks and barter to avoid bankruptcy and keep their value-destroying enterprises alive (Gaddy and Ickes 2002). In other words, they moved forward on aspects of reform that would ultimately haunt them.

**BUSINESS ELITES DIG THEIR OWN GRAVE: THE CASE OF ARGENTINA**

The rationale of the process in which Argentine business elites were engaged was different, in many ways, from the one faced by Soviet managers in the same period. Firstly and most obviously, Soviet reforms ended in the creation of a market economy after decades of the socialist experience; the creation of new institutions, economic rules, and actors was the result of the transformation we analyze here. In Argentina, change was relatively limited: the move was from a state-oriented strategy of development based on an internal market protected by high tariff barriers, to a more open economy with, at least in theory, a reduced level of state intervention. Secondly, the actors of the drama were conceptually different: the key actors in Argentina were not managers of state-owned enterprises but real capitalists, businessmen who had internalized the rules and logic of the capitalist market. They had, then, a different relation with the state and with the market, and they made their projections about the consequences of the reforms on a different basis. Finally, partly as a result of their different historical development, Argentine businessmen played a more active role than Soviet managers in the process of reforms. In fact, through their business associations, this group was one of the main promoters of the transformation. In sum, the Soviet and Argentine experiences differed in terms of the position of business within the two economies, as well as in the political dynamics at play. Yet paradoxically, the same basic forces and processes were at work in the USSR and in Argentina. Like Soviet managers, Argentine business elites were oriented toward rules and frameworks to anchor decision-making: elucidating these provides clues as to why they agreed with and initially even pushed market-oriented policies.

Argentine business support of the reforms holds another paradox: the most prominent local businessmen had developed under conditions of state protection.

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10 This leads to a Prisoners’ Dilemma moment: autonomy without accountability threatens such behavior as asset-stripping or rent-seeking and allows the continuation of value-destroying practices or incompetences. All this can lead to greater economic losses or inefficiencies, deepening crisis, and the increasing probability that reforms would become yet more radical.

11 As the aim here was to analyze the political actions of a business through the positions adopted by its associations in public space, our data mainly comes from archival research. We considered the ”official” publications of the business associations (such as annual reports, journals, and speeches) as indicators of the strategic positions adopted by each of them in the political field. We also took into account the positions adopted by the chairmen of the associations in the press, in order to capture discrepancies and tensions within the organizations. Archival research in newspapers also provided us with a description and characterization of the concrete political actions followed by the business—from block-outs to meetings with government officials. Finally, we considered debates and positions expressed in the specialized press (such as the journals *Mercado* and *Apertura*) as a gateway to communication strategies developed within the field.
Even more strikingly, during the 1970s the military government had tried out a series of “liberal” policies—similar to those introduced in the 1990s—that had damaged important fractions of business. Thus, by the beginning of the 1980s, when the new democratic government arrived in power, these fractions were far from supportive of, let alone demanding, market reforms. In 1981, the Argentine Industrial Union (UIA) argued that

whereas it was previously believed that everything can be solved by the market alone, we have discovered that the process of purifying and strengthening the productive system has resulted in a situation in which many efficient firms are dying or have already died (UIA 1981).

The positions of the industrialists were not theoretical: due to new levels of competition and lack of credit, many of them had faced bankruptcy in the previous years. Nevertheless, by the end of the 1980s, most fractions of Argentine business had adopted a shared diagnosis: even those affected by the opening of the economy during the 1970s agreed to demand market reforms.

How can this change in business positions be explained? Political dynamics, government strategies, ideological frameworks, and type of business organization are all factors that help to understand this shift (Beltrán 2007). The last of these reasons is also key to understanding the business configuration in Argentina which, in fact, displayed a much more complex spectrum than the Soviet one. Generally, the field of Argentine business was characterized by diversity and heterogeneity among its members. Differences concerned size, sector of activity, target markets, type of production (diversified or specialized), as well as cultural traditions and political resources (Acuña 1995; Birle 1997; Viguera 2000). All these differences helped create diverse preferences and were the basis of the different logics of political action followed by each fraction. Diversity can be seen even within the aggregates we are considering here, i.e. the business associations. In fact, the existence of an extended number of associations is a strong indicator of the level of heterogeneity of their interests. Business heterogeneity had been crucial to the

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12 During the 1970s, the military government propelled a series of neoliberal economic reforms, e.g. opening the economy and deregulating the financial system. These brought more harm than good. As a result, when the new democratic government arrived in 1984, many business elites (especially in manufacturing) were critical of liberal theory.

13 While some were critical, traditionally liberal business associations, e.g. the Argentine Rural Society and Argentine Chambers of Commerce, insisted that the liberal model had not been exhausted, and all trouble came from state intervention. These arguments assume that the critical situation of the early 1980s was due not to a failure of liberalism but to a return of the old model. Liberalism—or neoliberalism—was plausible as a “new,” untried alternative.

14 The main business organizations (excluding sectoral and regional ones) are: the Argentine Industrial Union (founded in 1887), the General Confederation of Industry (1951), the Argentine Industry Council (1982), the Argentine Rural Society (1866), the Argentine Agrarian Federation (1912), the Argentine Rural Confederation (1942), the Agricultural Inter-Cooperative Confederation (1956), the Argentine Chamber of Construction (1936), the Argentine Union of
political dynamics of the country during the second half of the 20th century, as some scholars have suggested (Portantiero 1977, Rouquié 1982). Therefore, by the end of the 1980s, what was new in the Argentine political scenario was that all business sectors, in spite of their historical differences, agreed on the same project: the transformation of the state.

**AMBIGUOUS REFORMS AND UNCLEAR FUTURES**

As in the USSR, vagueness and ambiguity played a critical role in the adoption and support of Argentine market reforms, although ambiguity had a different meaning in each case. In contrast to Soviet managers, Argentine business leaders considered the opening of the economy not as a completely new phenomenon but as something that had been tried in the past decade. Ambiguity was not connected, then, to the unfamiliarity of the market as a form of social organization, nor to the policies required to create these unknown markets quickly. Instead, ambiguity arose from a combination of factors, including the fragmentation of the business field and the vagueness of the liberal reform proposals. Out of this process, the business field emerged in a unique position, promoting and legitimizing the reforms introduced during the 1990s. This common position made sense, however, in a context where different factors came together.

In the first place, liberal positions were part of an old tradition within the business field. In fact, some of the most powerful fractions had historically been identified with economic liberalism. Among these fractions were some powerful exporters, members of the banking system, and the influential rural sector, grouped in the Sociedad Rural Argentina. For them, state intervention had led to cyclical economic crises and had isolated the country from the rest of the world. Over the three previous decades, their interests had clashed with populist-oriented policies from democratic governments, and they had therefore supported coups d’état and military regimes (Rouquié 1982; O’Donnell 1973). Although they had a critical view of state intervention, they had obtained gains from their close connections with the government and believed that bargaining and confrontation with the state were key to constructing repertoires of political action (Tilly 1995).

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Construction (1985), the Argentine Chamber of Commerce (1924), the Argentine Commerce Union (1981), the Association of Banks of the Argentine Republic (1919), the Argentine Banks Association (1972), the General Economic Confederation (1953), and the Buenos Aires Stock Exchange (1854).

15 In Latin America, Keynesianism acquired two forms: developmentalism and national populism. Developmentalists argued that the primary goal was production and growth, not income redistribution. Their solution involved intense vertical import-substituting industrialization, focusing on a high-priority basic industrial sector; rapid capital accumulation emphasizing foreign investment; and state involvement to channel private initiatives. National populism favored domestic industry over foreign industry. The preference for national capital reinforced the emphasis on small-scale industry. This camp also advocated greater state involvement in production. Inherited from the first Peronist party, national populism was highly influential in Argentina during the second half of the 20th century (see Sikkink 1991).
The political strategy of Alfonsín’s government (1984-89) was also critical in defining the positions of business during this decade. As the government believed that political dynamics were more important than the economy, Alfonsín sought to create an isolated state bureaucracy, trying to put some distance between the state and both business and trade unions (Acuña 1995; Birle 1997; Botto 1999; Schvarzer and Sidicaro 1987). From the business perspective, this initial distance set the state up as the political adversary of capital (Schmitt 1999). Besides that, the government not only opposed liberal economic ideas but also reinforced state intervention, in particular by controlling prices in order to get inflation under control. Thus, the government played a game of opposition to business that alienated most business associations.16 As early as 1985, the industrialists and the ruralists agreed on defining the state as “oppressive,” arguing that reality had shown that “only private capitalism can set the direction of the political economy” (El bimestre político y económico 17/1984). Business became even more critical insofar as the economic crisis spiraled out of state control by the end of the decade, most visibly demonstrated by declining GDP and rising foreign debt, which made up 20 percent of GDP by the end of the military regime, and by high levels of inflation (Madisson 1989; INDEC 1986). This situation, and the identification of the crisis with state intervention, convinced even businesses previously critical of liberalism that the state had to be reformed.

Consensus also arose as a result of the political dynamics. As business elites confronted the state, their agreement on key issues contributed to coordinating actions in spite of diversity of interests. Most of the business sector saw the possibility of coordinated actions as the condition for obtaining favorable decisions from a government perceived as the political adversary. Some aggregations of interests among business leaders emerged throughout the decade, contributing to the idea of business as a monolithic block without inherent differences—as in the case of the G17 (1987), the G11 (1985), and the G8 (1987). These groupings, composed of multiple sector associations, sought to find a unified position vis-à-vis the state.

Ideological positions also played an important role in defining business preferences regarding the reforms, and contributed to the vagueness which the reforms acquired in Argentina. To this extent, the existence of a set of economists with strong links both to local businesses and international financial organizations was a precondition for legitimating liberal economic ideas (Babb 2002; Bockman and Eyal 2002).17 In the

16 The new government emphasized the importance of politics over the economy. It also tried to re-edit a set of policies that the same party applied when it took office during the 1960s. This view on politics and the economy included the aim to subordinate and discipline local business to the government goals. However, after a decade of economic liberalization, this new stage of state intervention collided with business’s interests, particularly those of the most traditional factions. Policies such as price control (as a tool to reduce inflation), more aggressive tax policies (particularly export rights) and the attempt to make decisions showing a greater state autonomy than in the past caused business grouping to mobilize to confront the new administration (Schvarzer and Sidicaro 1987).

17 Working at think tanks such as Fundación Mediterránea, Centro de Estudios Macroeconómicos de Argentina and Fundación de Investigaciones Económicas Latinoamericanas, these economists presented the liberal project as neutral, objective, and the opposite of “populism” (He-
context of the economic and institutional crises, and given the perception that the state was not able to control the most important variables, neoliberal ideas made sense to most Argentine business elites, including the most powerful and entrenched ones. By the end of the decade these ideas had gained international legitimacy. \(^\text{18}\) Argentine economists were in charge of translating global ideologies into the local context. At the same time they were in charge of counseling both private and public bureaucracies, offering frameworks for strategic decision-making (Dezalay and Garth 2002; Beltrán 2005).

Given the characteristics of Argentine business and the complexity of the process through which agreement was reached, the idea of consensus throughout the business community deserves special scrutiny. What characterized the agreement was the ambiguity and vagueness of the proposals supported by the business community.

Argentine businesses did agree on a set of basic and unquestionable ideas: state intervention as the cause of the crisis and inflation; the end of the state-based strategy of development; the need to transform the state by reducing its scope and functions; the idea of the market as the best way to organize social relations, distribute resources, and generate profit; and the need to be integrated into the global economy. Privatization, market deregulation, and (vaguely defined) liberalization and opening of the economy were signaled as reforms the government should adopt (Beltrán 2005). However, beyond these common and vaguely defined sentiments, differences prevailed regarding the best ways to transform these ideas into actual policies. Using the terminology of Hirschman (1977), the agreement constituted a “tactical dimension”: a discourse composed of implicit contents never fully scrutinized. In other word, the specific steps to be followed, the precise features of the reforms, and their consequences for each sector were never seriously discussed. The ambiguity implicit in the consensus is crucial to any explanation of the scope and shape reforms would take in forthcoming years. In fact, each business sector had different ideas about what the reforms should imply. The Sociedad Rural Argentina expected that reforms would take the country back to a “golden age” of the agro-export model of the early 20th century; a reduced public deficit would mean elimination of taxes (SRA 1987). More pragmatically, and with an eye on financial globalization, the Asociación de Bancos Argentinos sustained the argument that the state should be reformed in order to eliminate restrictions on the arrival of financial capital and investments—access to global markets would allow the development of a local financial system in the country. For the Unión Industrial Argentina, state transformation meant an impulse to the benefit of industrial production and manufactured goods.

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\(^\text{18}\) Peter Hall (1989:10) argues that “the persuasiveness of a new set of economic ideas […] depends not simply on the ideas themselves but on the way in which they fit with other existing ideas, including the pertinent array of existing economic theories, recognized puzzles, and observations of the contemporary economic world.”
exports. To this group, deficit reduction should be translated into active policies for industrial development; for them, “a reduction of the restriction on access to imported goods would be acceptable under certain conditions” that included some specific forms of state protection (UIA 1987).

Diverse interpretations of reforms reveal the existence of opposite interests among business sectors. Such differences were displayed more clearly every time the government advanced toward concrete political reforms (Beltrán 2007). In the 1980s internal differences emerged when Alfonsín’s government sought to privatize public enterprises.19 Yet, despite these contrasting visions, business leaders publicly spoke with a relatively unified voice.20

The 1980s ended abruptly. In the middle of a social and institutional crisis and hounded by hyperinflation (3,080 percent by 1989), Alfonsín resigned before the end of his term after the election was won by the Peronist Carlos Menem (Botto 1999; Sidicaro 2002). The new government assumed power in 1989 and initiated reforms at an amazingly fast pace: the most important reforms were implemented in no more than three years. Support from liberal circles and business was crucial to the adoption of the reforms.21 Menem assumed that business leaders’ diagnosis was valid and soon tried to create coalitions in order to assure his government’s continuity.

However, once concrete reforms began, differences arose within business.22 At this stage it became clear that the consensus generated in the previous years had its limits. During the first years of Menem’s government, these differences were crucial

19 In 1986, and then in 1987, the government tried to privatize important public enterprises, including communications and airlines. Initiatives failed because local businesses were not yet interested in participating and because they expected greater participation, as eventually happened in the 1990s.

20 The G8 was the most influential and lasting of the fourth-degree business groupings. An informal association that groups the eight more important business groupings, it was made up of the Argentine Industrial Union, the Argentine Rural Society, the Argentine Chamber of Construction, the Argentine Chamber of Commerce, the Association of Banks of the Argentine Republic, the Argentine Banks Association, and the Buenos Aires Stock Exchange. Formed in 1987, it wielded great influence in the last years of the Alfonsín government. In the 1990s it supported general economic reform. Once the negative effects of the reforms became evident, internal differences emerged.

21 This contrasts with the Chilean experience—a case of early neoliberalization imposed by force under a dictatorship (Barret 1985)—and with the Brazilian one—a slow and late transformation with some degree of business opposition until the mid-1990s (Diniz 1991; Boschi 1991; Evans 1992; Kingstone 1999).

22 These differences can be deduced not only from discourse but also from statistic evidence. The Encuesta a Grandes Empresas of the National Institute of Statistics and Censuses and various business performance indexes (e.g. those published in Mercado) show far-reaching economic change in the 1990s. In aggregated terms, the internationalization of the economy meant that local businesses lost their positions (both economically and politically). This process was uneven, but it was present across all sectors of activity, intensifying the differences. Regarding the differences among sectors, data from the Ministry of the Economy shows a process of re-primarization of the economy and a development of the finance sector, accompanied by a decline in the manufacturing industry.
for the dynamics of the political economy. In contrast to the previous decade, it was more difficult for business leaders to coordinate their actions. As the government was introducing policies that were aligned with their demands, it became more and more difficult for those who were being harmed to ask for a change in political orientation. Therefore, differences coexisted with a general agreement with the “orientation” of the new government. For the Argentine Rural Society, for instance, the first economic plan of Menem’s administration included “the most important aspirations: to reach fiscal balance, eliminating the public deficit, in order to stop inflation” (SRA 1989). The industrialists, at the same time, supported the government’s proposal to “reduce the state, deregulate, free the markets, [...] and open up opportunities for creative private initiative” (UIA 1989).

Menem’s choice for his first Minister of the Economy sent a clear, strong signal to the business community: the position was filled with a member of the economic group Bunge & Born, one of the more traditional and powerful Argentine holdings. The arrival of the new minister was interpreted as an alliance between the government and the most powerful business sectors, implying that some traditional associations (e.g. the Unión Industrial Argentina) had been sidelined (Viguera 2000). Therefore, once “businessmen” were in decision-making positions, it became clear that the apparent consensus masked different and diverse contents. Initial measures were aimed at structural adjustment, increasing tariffs, and freezing prices and salaries to stop inflation. However, difficulties in controlling inflation and conflicts with diverse business sectors led the minister to resign.

Between 1989 and 1991, the implementation of the reforms followed a complex path of conflict and bargaining between the government and different business sectors. Once reforms were underway, each sector tried to negotiate to improve its position under the new circumstances. What was now clear was that reforms discriminated between winners and losers and that the ambiguous consensus of the previous decade had reached an end. In a scenario where multiple parameters had been modified at the same time, many businesses benefited from certain policies but were harmed by others (Schneider 2005). The opening of the economy, the reduction of subsidies, the increasing cost of credit, and the change in relative prices had an asymmetrical impact upon each sector and even within each of those sectors.

Menem’s government alternated attempts at coalition-building with efforts to impose discipline on business. The rhythm and direction of the reforms was defined through a complex bargaining process between government and business. Privatization was crucial to generating support and consensus on the reforms, since it was the main source of entrepreneurs’ initial gains (Gerchunoff et al. 1992). The reduction of import barriers, on the other hand, became a focus of criticism. Thus, the vague content of the reforms helped them to be implemented initially, and the transformations made in this period had long-term effects both on the economic system and the economic players. During the first year some of those who were being harmed by the new situation became critical of the policies, but had no capacity to articulate their demands and produce effective and coordinated political action. This controversial period was soon ended by the passage of the Convertibility Law in 1991. After that, the reforms initiated in the
context of the hyperinflation crisis were expanded: privatization, deregulation, and the opening of the economy became more organic and systematic (Toulan and Guillén 1997), creating new conditions for future political activity by business. For the following decade, the business groupings’ capacity to voice their positions, as well as their political options, were framed by a pro-market view that limited opportunities to articulate alternatives, particularly for those who were considered the losers of this process.

**EXPECTATIONS OF FAILURE**

The rationale followed by Argentine business has important points of contact with the Soviet case, but there are also significant differences. While Soviet managers suspected that reforms would not take deep roots and amount to much change, Argentine business elites shared a different idea of what “failure” meant. Its meaning in the late 1980s was connected, first of all, with the assumption that the state interventionist model of development had reached a critical point and that it was necessary to advance toward a new one. This idea was reinforced by persistent inflation and was confirmed by hyperinflation in 1989. The argument was made that the ISI model had been exhausted since the early 1970s and that state-led development had failed. What this did not take into account was that the model had suffered from policies introduced by the military and their minister for the economy, José Alfredo Martínez de Hoz, in the second half of the decade (Basualdo et al. 1990; Rodrik 1998). Although for some types of business, the model clearly no longer worked, this was not true for every sector. Based on the perceived failure of ISI, in the 1980s entrepreneurs assumed that the introduction of liberal reforms was the best option at hand. Although vagueness and ambiguity were key factors, Argentine business leaders did not act only under unknown conditions; they also calculated rationally the possible results of reforms and how they would affect them.

The rationale of the expectations of business elites was influenced by historical experience and their relations with the state. First, they read accurately that the state was in a critical economic position. External indebtedness, the lack of investment, the lack of capacity to collect taxes, and inflation had put the state in a position that constrained its capacity to answer their demands. Business elites concluded then that the state could not subsidize them as it had done in the past. According to this reasoning, structural change meant new opportunities, at least for some—those with a chance to profit from privatizations. This helps understand

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23 The program established a fixed exchange rate and limited the Central Bank to acting as a currency board. Furthermore, the tax system was reformed, introducing a single value-added tax on all goods and services and making this tax the state’s main source of income. The law also included a set of measures to fight tax evasion and prohibited contract indexation.

24 At the end of the military government, foreign debt reached $46 billion. Between 1976 and 1983, the debt grew by 364 percent, representing 20 percent of GNP and 160 percent of annual exports (Ministerio de economía (www.mecon.gov.ar); INDEC 1986).

25 During the 1990s, some of the most powerful economic groups participated in privatizations. In most cases, public enterprises were bought by a consortium composed of international
the apparent paradox that most businesses that supported reforms and demanded less state intervention had developed as capitalists under the protection—and using the subsidies—of the state (Conaghan and Malloy 1994; Durand 1994; Diniz 2000).

There was a second argument that appealed to a wider spectrum of entrepreneurs: based on history, business elites expected a change in “forms” of state protection, but not a demise of state protection itself. This turned out to be correct, but state protection acquired a narrower meaning than business elites expected. In other words, Argentine business perceived that if things went wrong, the state would bail them out as it had done before.26 This is the reason why, in spite of being a heterogeneous field, most business sectors visualized themselves as “winners” of the future transformation: for them, risks would eventually be reduced by state action.

In fact, Argentine business elites had good reason to believe that the state would rescue them. First, Argentine capitalism developed through the state. Subsidization, market protection, and profitable state contracts had been the means employed by the most powerful businesses to evolve (Azpiazu et al. 1986; Sabato 1988; Schvarzer 1991). Furthermore, the state had emerged from various critical situations in the past, “saving” business interests: a few years earlier, the state had nationalized debts which the private sector had acquired from international banks.27

For businesses, the probability of state support was higher under liberal governments than during Keynesian/populist periods. Moving into liberal reforms promised to put them in a better position for bargaining with the state. In their reasoning, the more apparently capitalist the model, the more the state would need to negotiate with owners of capital—and so business elites would have a key role under the new rules and be in a better position vis-à-vis the state (Viguera 2000, Kingstone 1999).

It was not until the reforms started to be introduced in the 1990s that the actual costs of change became apparent. The effects of the reforms, however, were very different from what some of their supporters had expected. Although some individual businesses were able to make adjustments to become more competitive, many—particularly small and medium-size manufacturing firms—went bankrupt. With the

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26 When the “debt crisis” hit most Latin American countries in the early 1980s, many Argentine businesses were “saved” by the state. Through different mechanisms, the state assumed debt taken on by the private sector, which at this point represented almost half of total foreign debt (Basualdo 1988).

27 Private debt was about 50% of total debt (Basualdo 1988). The military took the place of the private debtors in negotiations with the international creditors and itself became the creditor to local business. Later, inflation considerably reduced private debt, and the process ended through a transfer of debt from private debtors to the state.
reduction of tariff barriers, powerful competitors entered the market, affecting the position of even some of the most powerful local grupos (Basualdo 2006; Kosacoff 1998; Schorr 2004; Schvarzer 2001; Rapoport 2005). Increasing competition and difficult (and expensive) access to credit favored concentration and foreignization of the economy (Chudnovsky and López 1998; Kosacoff 1998). The lack of state protection affected all sectors of the economy, including the manufacturing industry, food producers, and finance. Both the manufacturing industry and the rural sector grew less than average during the 1990s, while the service sector grew more than average (Basualdo 2006). Many industries, including electronics, machinery and others such as shoes and textiles reduced their production, and a significant number of firms closed. In this context, the strategy of most industrialists was “defensive” (Schvarzer 2001; Kosacoff 1998).28

In sum, Argentine business leaders did not necessarily believe that the project as a whole would fail. What they expected was that the state would not be able to discipline them. In addition, they expected be able to draw profit from the new situation and that if, in the end, something went wrong, the state would act in their interests. From the viewpoint of the Argentine business elites, no matter what the characteristics of the model were to have been, the theoretical chance to win was always there.

OPPORTUNITY FOR AUTONOMY

As in the USSR, reforms promised Argentine business elites the possibility to increase their autonomy from the state. This view was founded on the belief that under a liberal-oriented government, business leaders would be in a better position to obtain responses to their demands. However, autonomy had different meanings. First of all, the Argentine state had left more room for autonomy than had the Soviet state. Secondly, owners usually have more room to maneuver than managers. Therefore Argentine owners did not perceive that they were limited in their decision-making per se (as managers did). For them, greater autonomy from the state meant the opportunity to do new and more lucrative business without state control of their activities and with a chance to reduce tax payments to a minimum.

Therefore, autonomy in Argentina represented an opportunity to reduce economic regulation. While Soviet managers sought to reduce state regulation of their activities, in the absence of private property even small steps toward more autonomy carried greater weight than in Argentina. Here, business shared the perception that the crisis was caused by state interventionism; deregulation emerged both as solution for the economy as a whole and an opportunity to increase business maneuverability and profitability. For the Argentine Construction Chamber (1990),

28 Even big companies were affected differently by the reforms. Basualdo (2006) distinguishes between those that improved their positions in the 1990s (Pérez Companc, Loma Negra, SOCMA, Werthein, Acindar, Clarín, Techint), those that disappeared (Bonafide, FV-Canteras Cerro Negro, Noel, Aceros Bragado, Astilleros Alianza, Scholnik. Celulosa Argentina), and those that lost ground (Bunge & Born, Bridas, Garovaglio y Zorraquín).
“the deficit, the overwhelming state, and the budget imbalances formed a scenario that has brought the country to economic and social chaos.”

History played a key role in the generation of this view: for decades, liberal business sectors had sustained the notion that state intervention represented the intrusion of the government into private issues. The critique of interventionism and the promise of greater autonomy had been discussed within the business field for the greater part of the 20th century. These sectors had enjoyed greater autonomy under military governments than under democratic ones (Acuña 1995; Birle 1997). Nevertheless, the dictatorship that began in 1976 and ended in 1983 had changed the equation: the military closed most channels of communication with civil society, including business organizations—the Unión Industrial Argentina is a paradigmatic case. It is fair to say that during this period the state kept a distance from most businesses, with the exception of some privileged big business groups. The military became “unpredictable” (Acuña 1995).

In addition to the experience of the dictatorship, during the first years of the Alfonsín administration business associations argued that the state left no room for their initiatives and that retreat from the economy was necessary to free up investment capacity. The Argentine Industrial Union argued that the most dynamic private sectors of Argentine society “had suffered excessive extractions and were affected in their capacity to generate wealth for the economy” (UIA 1986). Ambiguous neoliberal reforms in Argentina were doubly attractive to the business elite: they promised increased autonomy vis-à-vis the state and society. This last aspect of autonomy presents an interesting contrast with the Soviet case. While formal ideology stressed working-class hegemony through the Communist Party and socialist state, Soviet trade unions were included in the overall structure of state power and were not a vehicle for mobilization against managers (Rutland 1990). This would push Argentine business elites toward neoliberal reform, which was inherently hostile to organized labor. However, Argentine business elites were not under the same degree of control as Soviet managers; in this aspect, Soviet managers would be more attracted to market-style reforms. On balance, however, both factors together led to a similar outcome: Argentine business elites and Soviet managers accepting some degree of market-style reform and liberalization.

The state’s retreat from the economy had a series of consequences. The positions of business elites were reinforced by the conviction that, as in the past, the best strategy was to “stay inside” the state in order to negotiate specific policies, rather than to break relations; open protest was not a good option because it would reduce the space for bargaining. In fact, the reforms resulted in economic and political losses. They also implied a change in the system of interest representation that changed the links between business and the state. The most powerful businessses—or at least those of them that survived—won autonomy because they were able to

29 A small and select set of economic groups, with informal access to the state and diversified investments, had been favored by the military government. Some of them, as we have seen, profited from the privatizations of the 1990s, while others lost the influence they had gained during the previous decade.
lobby individually with the government. In fact, they won autonomy in a double sense: from the government and from other companies. However, most companies, and particularly members of the business associations, did not win autonomy. On the contrary, once state intervention was reduced, they lost their capacity for negotiation.

In sum, reforms created a new scenario in which the asymmetries produced fragmentation and differentiation within the business field (Schvarzer 2001; Schorr 2004; Sindicaro, 2002). At the same time, as a result of the massive arrival of foreign investment along with the withdrawal of the state, once the reforms were introduced, local business had to compete with powerful foreign adversaries supported by their countries of origin. Therefore, the privileges previously held by powerful Argentine companies were called into question in a situation of heightened competition.

CONCLUSIONS

The comparison of initial stages of economic reforms in Russia and Argentina shows how historical and ideological aspects intervened in the decision-making process of those economic elites who supported the reforms. The comparison shows that decisions were not based on “inherent” or “natural” characteristics of local business but conditioned by past experiences and uncertainty regarding the future. Overall, rationality in managerial and elite decision-making was thus conditioned in the USSR and Argentina by experiences and expectations established through stochastic learning in the context of reforms that were sufficiently vague and contingent to allow managers and elites to write a happy future into reforms. The key factor for understanding their support of the reforms is not their capacity (or lack thereof) to foresee the future, but the fact that decisions are only intentionally rational. Limits on rationality are given not only by limited access to information about the future but also, and more importantly, by the role of ideas and *habitus* in the decision-making.

This is not to suggest that we have exhausted the variables and processes at work in these two cases: further comparative work on internal organizational routines and organizational fields would shed more light on why managers and elites chose the tactics that they did. We suggest that greater attention to Bourdieusian dynamics—stocks and use of capital (social, economic, political, cultural), field structures and meanings, and content and change in *habitus*—will add complexity and reality to the over-simplistic models of organizational behavior, too reliant on the idea of rational choice, that are at the core of much writing on political economy. Stochastic learning and anchoring suggest that economic sociologists have been on the right track, and that policy analysis and policy-making need to make meanings, experiences, and such learning more central. Ambiguity may be unavoidable, given the usual politics of reform; but if this is the case, we need to dispel the illusion that technocratic structures inside the state are the best way to reform, for no matter what economists may say about the need for particular changes, politics will end up confusing the reform process. Actors will naturally go with what they know. It may also be that those engaged in considering reform politics need to keep in mind the
likelihood of unexpected outcomes and be ready to address them, perhaps through more business and welfare safety nets or reform timing, sequencing, and duration, thus allowing for more complicated learning to take place. This was certainly key to the “gradualism” school of economic reform: give actors time to adjust. Alternatively, rapid reforms might require the heavy hand of the state to act against actors who did not choose wisely from the outset; but such “technocratic Stalinism” might have costs that are ultimately too high, not only in economic but also in human terms. If this analysis suggests anything, it is that managers and business elites are human, and so reform will be a messy process; to expect too much rationality might be as unhelpful as assuming none at all.

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