

# THE RUSSIAN AND ARGENTINIAN EXPERIENCES OF RADICAL REFORM: BETWEEN ECONOMY AND POLITICS

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The 1970s and 80s saw a wave of market liberalization in Latin America, Africa, and Asia, but also in the United States and Western Europe. It reached Central and Eastern Europe just as the socialist bloc was disintegrating. To explain this exceptionally universal movement, a number of studies have emphasized that the changes went hand in hand with a very specific reconfiguration of the frameworks and actors implicated in the development and implementation of the decisions to liberalize.<sup>1</sup> Despite their richness and detail, these studies tend to focus on the decision-makers and base their conclusions on an overly monolithic idea of how the reforms were implemented. A detailed comparison between two countries permits us to assess the differences and similarities of two recent cases of radical reform. In order to analyze the complex interaction of economics and politics—whose definitions and boundaries have changed noticeably in the course of these transformations—we will study the cases of Argentina and the USSR (Russia) during the period beginning with their first steps toward market liberalization in the 1970s and ending with the neoliberal crisis of the late twentieth and early twenty-first century. We will begin with brief observations on the history of economic reform in each country, followed by an analysis of the similarities and differences between the neoliberal transformations in the two countries, through an examination of several dimensions of their experiences. First of all, we will

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1 Among the first studies of this type are Broady, de Saint Martin and Palme 1995; Broady, Chmatko and de Saint Martin 1997; Centeno 1994; Dezalay 1992; Markoff and Montecinos 1994; Montecinos 1988; Niane 1992; Pechman 1989; Sklair 1995 (1991); Valdés 1989; and Williamson 1990a.

consider the circumstances that made these reforms possible, as well as the delegation of public decision-making to economists. Second, we will describe the institutional context in which experts' actions took place, paying particular attention to the tensions between political democratization and economic liberalization. Third, we will analyze the unequal influence of neoliberal ideas within Russian and Argentinian institutions. Finally, we will evaluate whether the neoliberal order was reversed or remained intact after the transformations that took place following the crises of 1998 and 2001.

## **1. BEYOND A GLOBAL FORMULA: THE CONTRIBUTION OF A COMPREHENSIVE COMPARATIVE VIEWPOINT**

Faced with the economic crisis of the 1970s, scholars developed a host of theories with the goal of understanding the situation of Western nations and the difficulties they experienced in reproducing the system previously in place. According to these analyses, the postwar model had entered into an intractable crisis: the tension produced by social strife and political instability—and exacerbated by inflation, the fiscal deficit, and slowing growth—was found to be rooted in the growing interventionism of the state. According to these theories, the expansion of social benefits had been beyond the economy's productive capacity. Breaking with the policies that had marked the "Glorious Thirty" years following the end of the Second World War, these critics of the existing political and economic paradigm praised the benefits of a global free market.

This intellectual movement, which in reality comprises a multitude of different theories and schools (such as the Chicago School and the Austrian School), found its principal partisans and popularizers in the field of economics. Their ideas have inspired "economic" politics in many countries since the 1970s. They are expressed in perhaps their most radical form in the collection of policy prescriptions for developing countries known as the Washington Consensus (Williamson 1990a; 1990b), which recommended "structural reform" including measures such as the reduction and reorientation of public spending; financial liberalization and market deregulation; privatization, and, in some cases, the formalization of private property rights; and finally, opening the national economy to foreign investment.

The 1960s and 70s saw a wave of market liberalization in Latin America, Africa, and Asia, but also in the United States and Western Europe, reaching Central and Eastern Europe just as the socialist bloc was disintegrating. These reforms were justified by the elite modernizers who declared them a necessity imposed by the collapse of the previous system. Considering their postwar political and economic "deviations," countries in South America and Eastern Europe were expected, furthermore, to rejoin the "normal way of civilization" by following the example of Western nations.

Since the late 1980s, sociologists and political scientists have produced a host of studies that seek to explain the exceptional unanimity of this movement. They all emphasize that these changes coincided with a specific reconfiguration of frameworks

and actors implicated in decision-making. Their overall conclusion is that the process of globalization does not bring an end to alternative systems, competing values, and opposing interests, the development of a specific plan of action, or the need to make choices and accept the consequences. However, the usual political forums were displaced, and the economic experts in each country took on the role of mediators between international pressure and local interests.

Indeed, the new international order not only supposedly showed the way, but also imposed serious constraints. Instead of comparing “autonomously” evolving variables in the mode of the prevailing economic discourse, it was there necessary to reconstruct the networks of power that encouraged the “great transformation.” An *histoire croisée* of cultural and political translators who transported and imposed certain ideas came to be seen as crucial for an understanding of the global spread of the new political orientations (Espagne 1999; Werner et Zimmermann 2004).<sup>2</sup> Far from constituting the inevitable culmination of an internal “economic” crisis provoked solely by politicians in each country, these authors argued, the reforms went hand in hand with a threefold “political” process: the Americanization of the discipline of economics, the technocratization of high-level administration, and the rise of “neoliberal” economists to prominence in the roles of counselors and directors of reform.<sup>3</sup>

In spite of their richness and detail, these studies tended to focus on the decision-makers, thus basing their theories on a monolithic vision of how the reforms were implemented. Furthermore, the emphasis on legitimacy discourses and the implied association between economics and religion tends to overestimate the importance of decision-makers in the structuring and implementation of the system. In seeking to disprove the supposedly objective and scientific nature of the policies proposed by the reformers, these analyses fail to give due consideration to the material challenges (hyperinflation, crises in public finance and consumption) faced by their predecessors, the failed experiences of previous politicians, as well as global changes (notably the internationalization of finance and markets). On the other hand, many analysts have assumed that neoliberalism was clearly defined in the minds of the reformers. Those authors who stated that the “neoliberal model” had been a project before it became a reality based their interpretation on three hypotheses, although these were not always explicitly stated: the solidarity and premeditation of the parties involved, the unity and cohesiveness of the “neoliberal” program, and the effectiveness of exchanges between “exporters” and “importers” of diagnoses and reforms.

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2 We are referring to the idea of “neoliberalism.” As a historical synthesis, the term allowed to juxtapose different regions and periods based on a number of similarities. Indeed, some common trends did tend to transcend national differences, the ideological affiliations of political leaders, and the diversity of local actors.

3 Most recently, Babb 2001; Bayart 2004; Bond 2000; Chmatko 2002; Dezalay and Garth 1998; Dixon 1998; Lebaron 2000; Portes 1999; and Wagner 1998.

A series of recent studies (Bockman and Eyal 2002; Fourcade-Gourrinchas and Babbs 2002; Mitchell 2002), more attuned to local contexts, has elaborated and refined these first conclusions. On the one hand, we need to nuance the thesis of a “transposition” of economic models of rich, “advanced,” countries onto poorer, “backward” ones. Latin American and East European countries did not simply imitate the economic models of the First World. They sometimes anticipated and took to extremes certain forms of globalization that arrived only later and in incomplete form in Western Europe and the United States. On the other hand, while the neoliberal turn may have represented a global tendency, reformers in different local contexts encountered diverse forms of resistance: their own situation contributed in each case to reinforcing, weakening, or reorienting the global currents. Indeed, as several comparative analyses have shown, national neoliberal experiences have been extremely varied.<sup>4</sup> Going further than the traditional analyses of the “political economy” or “economic beliefs,” national case studies have attempted to bypass the opposition of global “economic” tendencies and local “political” institutions, and to situate reformers’ actions in the context of challenges and concrete dynamics. This article employs the latter approach, as it puts forth a comparative analysis of “neoliberal” experiments in radical reform in Argentina and Russia.<sup>5</sup>

The comparative perspective proposed in this paper attempts to integrate both economic and political aspects within a greater timeframe than that currently considered by other authors (Fourcade-Gourrinchas and Babb 2002; Biglaiser 2002) in their analyses of neoliberal experiments. In focusing on a period of “radical” transformations from the beginning of the 1990s, we also propose to analyze not only the implementation of reforms and their duration, but also the intensity of the financial crises that are usually assumed to have ended this period. Our analysis will begin in the 1970s in order to show the steps that led up to and made possible these “radical reforms.” This comparative, historical study permits us to call into question the presumed universality—or conversely, locality—of certain tendencies that, without enabling us to generalize about all countries that experienced similar transformations, shed light on their diverse experiences. Indeed, the “economic” processes were not as homogenous as “mainstream” economists often claim, and

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4 In the words of Fourcade-Gourrinchas and Babbs (2002:534), “Local institutional conditions and dynamics shaped perceptions of the necessity and purposes of economic liberalization, and the channels through which neoliberal ideas could diffuse and influence policy.”

5 This article is the result of the meeting and subsequent collaboration of two authors who, as doctoral students at the EHESS Paris under the supervision of Monique de Saint-Martin, employed a similar perspective to study their respective countries. The paper is based on two socio-historical studies conducted between 2003 and 2005, which involved an analysis of a large body of newspaper articles and archives, participant observations, and interviews in each country. See Heredia 2007 and Kirchik 2007b.

political drifts and inconsistencies were not as localized as international critics have tended to emphasize.

In order to develop this argument, we will first present brief observations on the history of radical reforms in Argentina and the USSR (Russia), followed by a more in-depth treatment of the post-authoritarian period. We will analyze the similarities and differences between the neoliberal transformations in the two countries through an examination of several dimensions of their experiences. First of all, we will consider the circumstances that made possible the delegation of decision-making to economists. Secondly, we will describe the institutional context within which the economists' actions took place, the nature of the Argentinian and Russian political regimes during this period, and the controversial nature of the politics implemented by the two countries. Thirdly, we will analyze the unequal influence of liberal ideas in Russia and Argentina. Finally, we will consider the relationship between the state and the market that resulted from the transformations which followed the crises of 1998 and 2001.

## **2. REFORM IN ARGENTINA AND RUSSIA: THE LONG PROCESS OF BUILDING A NEW ORDER**

A look at the history of how neoliberal reforms were implemented immediately leads us to call into question the idea of a peaceful transition toward a clearly defined new state. During the period under consideration, Argentina was not advancing toward a preconceived equilibrium. The programs pursued were inconsistent, and often had adverse effects and unintended consequences. Even limiting our analysis to monetary and financial aspects, the struggle against inflation and the defense of stability led to record foreign debt, two periods of hyperinflation, five semi-confiscations of bank deposits, a turbulent relationship between the local currency and the dollar, and a succession of five different national currencies, as well as the appearance of more than a dozen regional currencies. Likewise, in the USSR, perestroika—initially designed to boost the Soviet economy—brought about, against all expectations, the collapse of the political and economic systems. Next, the launch of radical reforms—“shock therapy”—also had numerous unintended effects, including hyperinflation, a dramatic impoverishment of the population, the violent collapse of industrial and agricultural production, and multiple challenges and amendments to the initial reform project.

The two case studies that follow show that, from a historical perspective, “economic” policies were almost never realized as a unified project carefully planned in advance, but rather as a process of trial and error aimed at correcting dysfunctions and reaching the desired goal of stability and growth. We will attempt, finally, to show that even if the two countries were driven to adopt more market-friendly positions during this period, a long process of developing and constructing the new politico-economic order was carried out entirely by national actors in response to the challenges presented by their concrete socio-political environment and structure.

## 2.1. ARGENTINA: THE THREE-STAGE BATTLE AGAINST INFLATION<sup>6</sup>

Like the other major Latin American countries since the 1930s, Argentina has been engaged in a progressive expansion of state functions aimed at encouraging growth and full employment. Without seriously calling into question the status quo distribution of property or market activities, a policy of “industrialization through restricted importation” was implemented. On the one hand, governments hoped to raise agricultural productivity while retaining a share of agricultural profits through taxes on exports; on the other hand, they established customs regulations and preferential credit in order to protect national industry from foreign competition and to stimulate diversification. Although by the end of the 1950s multinational corporations were encouraged to set up operations there, the state did not become any less nationalist: service companies and basic industries remained public, and foreign businesses were required to develop local potential and reinvest a portion of their profits. It was in social and labor legislation that Argentina proved itself a true welfare state. From the 1940s onwards, in addition to universal education and healthcare, workers had access to a public retirement system, guaranteed bonuses, paid leave and a forty-five-hour workweek. With low unemployment rates, salaries remained relatively high by regional standards.

However, this expansion in state functions took place amidst intense political and social conflicts. Between 1930 and 1983, Argentina saw a succession of civilian and military governments and experienced periods of restrictions on free speech, free assembly, and participation in government.<sup>7</sup> The government of Juan Domingo Perón (1945–55), overwhelmingly supported by the masses despite its authoritarian bent, has left an indelible mark on political life in Argentina, defining citizens until today as Peronists or anti-Peronists; politicians of the former persuasion have always been backed by the majority, while the latter have implemented diverse strategies to suppress or at least counteract the Peronists’ electoral influence. After the fall of Perón’s government, the armed forces became the preferred means of keeping the Peronists in line. In the context of quasi-military rule, frequent national strikes allowed the powerful and united trade unions to improve labor conditions and compensation. These tensions were not without consequence for the state’s management of the system of production. Faced with a dizzying succession of regimes, the integration of measures that had been adopted, the effectiveness of their implementation, and the introduction of adjustments became very problematic.

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6 Bibliographic references used for this summary are listed in Heredia 2007. Some of the more general and recent studies are Acuña 1995; Botana and Waldman 1988; Gerchunoff and Llach 1998; Halperin and Donghi 2006; Novaro and Palermo 2004; Pucciarelli 2004, 2006; Rapoport et al. 2000; Schvarzer 1998; Sidicaro 2002.

7 Between 1930 and 1976, virtually no leader managed to remain in power for the entire six-year term determined by the current National Constitution: the average term was approximately two and a half years. Ministers of the economy were replaced at an even more striking rate: they lasted, on average, a little over a year, and a number of them (15 out of 50) failed to hold office for even six months.

Growth rates were disappointing and made some—liberals in particular—nostalgic for the prosperous, stable Argentina of the late nineteenth and early twentieth century. While Argentina grew economically at the same (or sometimes a greater) rate as the major European nations and the United States between 1914 and 1945, between 1950 and 1970 it failed to match even the level of growth of its neighbors (Chile, Brazil, or Mexico).

The conflict took a particularly violent turn at the end of the 1960s. While certain members of the ruling class and the armed forces were attracted by an authoritarian version of development, some workers and university students began to believe that industrialization would not lead to “national emancipation” from the dominance of large foreign powers, nor to “popular emancipation” from the dominance of economic elites who were supposedly aligned with “foreign power.” The proliferation of strikes and the emergence of nationalist and leftist guerillas were met with paramilitary organizations and a codification of the ways in which the armed forces thought about security. Despite General Perón’s return to power and his fruitless attempts to establish an agreement between bosses and workers, the violence continued and a new military coup took place in 1976. The armed forces pulled out all the stops as they tried to bring the country’s unruly society back into line. No checks or limits were imposed on the forces of order, and secret detention and torture centers were created throughout the country. Many people were detained even on university campuses or in the offices of unions and political parties. No information was released on what became of them. Public and private institutions were also placed under heavy surveillance.

However, military repression did not usher in a new political and economic order, as it did in Chile during the same period. The stabilization of the new social structure took over three decades in Argentina, not only because of resistance to market politics, but also because inflation (one of the manifestations of disorder) remained particularly persistent. Like most Latin American countries, Argentina experienced higher rates of price increases than industrialized nations.<sup>8</sup> Nevertheless, in 1975, the conflict between employers, workers, and the state over distribution (and the policies adopted to settle it) led to a price increase of 300% over the course of the year. From 1975 on, inflation remained in the triple digits, on average, every year until 1991 (never falling below 90%), and periods of stability were brief. According to Schvarzer (1998:73), Argentina attained “a double world record: no modern economy has sustained a period of such high inflation, nor for so long.” Concern about inflation became the biggest ally of neoliberal politics and the technocratic management of public affairs. Three trends became more pronounced after 1976:

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8 Between 1945 and 1974, the average annual rate of consumer price increases remained around 14%, with a few years seeing relative stability (1953 and 1954, with less than 5%), and others heavy inflation (1952: 39%; 1959: 114%; 1973: 60%). The annual inflation rates were already at the time well above the aggregate average for the world (approximately 5%) for the same period. For macroeconomic indicators, see Table 2.

controlling inflation and ensuring monetary stability became the foremost priorities of public policy, controversy and social debate were eclipsed by the authority of a circle of increasingly homogenous and united specialists, and finally, increasingly radical reform plans (economic programs) were adopted.

The last military dictatorship (1976–83) constituted the first step toward market liberalization and state reconfiguration. The military and its allies believed that the growing regulation of the economy had stifled individual initiative, brought about an increase in public spending, and contributed to the rise of inflation. The decision to close the country to foreign trade further isolated the nation and permitted the development of businesses that were overprotected, ineffective, and incapable of integrating into the international market. However, the government was anything but consistent in its ideology. On the one hand, many military and business leaders wanted Argentina to become an industrial power like Brazil, and emphasized the importance of state intervention to accomplish this. On the other hand, their liberal allies envisioned dismantling old regulations and selling public companies in order to release the market's full potential, following the example of Chile. This contradiction played out in official policy. While spending was increased for arms, infrastructure, and industrial subsidies, the government proclaimed imminent budget cuts. It was anti-inflationist politics that encouraged the adoption of the first structural reforms. After several fruitless attempts at stabilization, Minister of the Economy Martínez de Hoz requested the advice of a new generation of young economists educated in the United States. It was not yet a coherent team with a comprehensive plan for transformation: the experts in question had just returned to Argentina after completing their studies, did not always know each other well, and had barely begun founding their first think-tanks. With no apparent coordination, they took part in the development of various reforms. The most important was an innovative plan for stabilization, launched in December 1978. Instead of undertaking the budgetary adjustments deemed necessary by traditional liberals, the young economists encouraged preemptive devaluation of the local currency in relation to the dollar as well as the financial and commercial opening of the domestic market.<sup>9</sup>

This first macroeconomic experiment proved minimally effective in curbing inflation, while causing unprecedented disruptions in the socio-economic dynamic of the country. Annual inflation was around 400% in 1976, and it remained above 300% in 1983. At the same time, GDP stagnated: the rate of growth was 2.3% between 1975 and 1983. Foreign debt, on the other hand, increased by nearly 800% between 1975 and 1982. Faced with the overvaluation of the local currency, unfavorable

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9 Following a monetarist approach to open economies, also known as the monetary approach to the balance of payments, certain key prices were fixed, notably the dollar exchange rate, utility rates, and base salaries. To reduce the fluctuations of exchange rates, the government developed and circulated a *tablita cambiaria*, which established a monthly devaluation rate that was lower than the rate of inflation and tended to decrease gradually.

interest rates, and international competition, a large number of small and medium-sized companies declared bankruptcy, and Argentinian production refocused on the primary sector, with little positive effect on the economy. Wage freezes and the decrease in industrial employment quickly produced regressive effects. While unemployment did not increase significantly, earnings and working conditions dramatically deteriorated. For the first time in the modern era, Argentina experienced increases in poverty and even famine.

After Argentina's defeat in the Falklands War, the first transitional democratic government claimed to be the antithesis of dictatorship. Of course, a definite reversal of the politics of liberalization had already occurred after the financial crisis of 1981: the currency had been strongly devalued, commercial and financial borders had been reestablished, and plans for privatization had been abandoned. When the armed forces hastily left power, the political leadership and technocratic elites who contributed to the government of Raúl Alfonsín not only set themselves up in opposition to the politics of the 1970s, but also promised to provide compensation for the sectors adversely affected by the dictatorship, as well as supporting the victims of crimes against humanity and social groups impoverished by the reforms. After the brief tenure of a group of Radical Civil Union politicians at the Ministry of the Economy, the persistence of inflation once again led civil authorities to delegate the responsibility for stabilization policies to nonpartisan economists. The first "heterodox" program, the Austral Plan, was proposed to stabilize the currency, reduce the fiscal deficit, and repay foreign debt. Whether this effort was neoliberal remains controversial. On the one hand, the team of specialists claimed to be Keynesian and interventionist and opposed the radical reform of government activities. On the other hand, the government took on all of the foreign debt accumulated by the dictatorship and in 1985, following an agreement with the IMF and American government, launched an anti-inflationist program that left no room for negotiation with members of the opposition or disadvantaged social groups. To curb the deficit, the economic team began to reduce public spending and increase tax income, and resorted to an IMF loan (rather than issuing currency) in order to face the anticipated shortfalls. They also applied a price freeze while launching a monetary reform that replaced the peso with the austral. Although currency exchange became more liberal, the government fixed the exchange rate at 80 U.S. cents to an austral.

Though its short-term effects were positive, the Austral Plan led to an unprecedented crisis. By creating expectations of price changes based on the currency change, this shock policy led to a decrease in inflation for several months. The stabilizing effects depended on the correlation of stability with confidence in the fixed exchange rate between the austral and the dollar. Faced with the collapse of export prices and a worsening fiscal deficit, the government was at the mercy of international credit organizations. It became increasingly obvious that financial assistance would require the reorganization of relationships between the state and the market, and the idea that "stabilization must be paid for through sacrifice" became widespread. While interventionist economists found themselves at an impasse, neoliberals saw in the dire economic situation an opportunity to encourage

profound change. Privatization, market deregulation and trade liberalization were presented as the only paths to stability. Newly consolidated neoliberal think tanks had gained influence over important employers, the press, and opposition parties. Within this context, the country had its first hyper-inflationary episode. In 1984–85, price increases surpassed 600% per year; in 1989, they had reached 3,080%. President Alfonsín had no choice but to preemptively transfer power to a new government.

During the third stage (1989–2001), Argentina entered into a new politico-economic order that could be described as “neoliberal.” The Peronist Carlos Menem, who came from a nationalist and working-class party, immediately put all of the structural reforms into place. Menem’s “liberal revolution” resulted in the enactment of two laws, both passed in 1989: the Administrative Reform Law (no. 23696) and the Economic Emergency Law (no. 23697).<sup>10</sup> Within this new legal framework, privatizations followed with dizzying speed. The national telephone company and commercial airline passed into private hands in less than a year. The reduction of most tariffs encouraged the opening of the domestic market. Transportation was deregulated and the regulatory commissions for agricultural and industrial production were eliminated. The state began reducing public spending and, bucking the trend of fixing, freezing and controlling prices and salaries, the government renounced interventionism. This turnaround was rounded out by a new diplomatic policy called “peripheral realism.” Menem’s government felt that pragmatism and consistent alignment with the United States was the best strategy for the country. In spite of the radicalism of the measures undertaken by the government, the spiral of inflation continued, and in 1990, Argentina once again experienced hyperinflation on the order of 2,310%.

It was the arrival of the economist Domingo Cavallo at the Ministry of Economy in January 1991—and, in particular, the enactment of the Convertibility Law several months later—that allowed the government to stabilize. The new monetary system included a fixed exchange rate between the local currency and the dollar, as well as a ban on index-based adjustments. With the exchange market remaining free—anyone could buy dollars as they pleased—the state promised that the number of available dollars in the treasury would match the number of bills in circulation. In other words, the government abstained from issuing currency as a means of financing its deficit or encouraging growth. But the regime went even further: from that time forward, Argentina adopted a dual-currency system, meaning that both currencies—the dollar and the peso—could be used equally in the country. Beginning in 1991, all

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10 These two laws delegated extraordinary powers to the executive to undertake a reform of the economy and the state. The first concerned the rights and obligations of domestic and foreign capital, repayment of public debts, various regulatory reforms, the elimination of all state subsidies, tax changes, and the possibility of laying off personnel. The second served as a legal framework for the reform and privatization of public enterprises to allow some capitalization of external debt. It also halted judicial proceedings against the state, as well as allowing for the cancellation and renegotiation of government contracts and a reassignment program for state employees.

contracts could be decided and settled in either currency. Not only was there a large domestic circulation of dollar bills (as before), banks were also given the right to record financial investments as well as loans to individuals (whose assets were in pesos) in U.S. currency. It seemed to be a miraculous formula. After more than forty years of chronic inflation and twenty years bordering on hyperinflation, the government had succeeded, in a few months, in stabilizing prices and making Argentina's inflation rate one of the lowest in the world. This effective control over prices coincided, moreover, with economic growth, following more than a decade of stagnation. The privatization of the majority of public companies, the opening of the domestic market, and the deregulation of the economy took place in the context of relative social stability. After more than fifty years of political instability, during which very few presidents had completed the full six years of their electoral term, President Menem had successfully subordinated the armed forces to civil authority and was re-elected in 1995.

Although the Convertibility Plan initially lacked the support of local and international political and economic elites (including that of the American government and the IMF), its "success" quickly drew their approval, and maintained it for more than ten years. The general idea of the program (called "pro-market") and the opportunities created both by the reforms and through private negotiations also allowed the government to count on unwavering public support from big business. But the support of local actors quickly became inseparable from the international context. Several months after its launch, the program benefited from a proposed reduction, redistribution, and restructuring of debt under the Brady Plan. This had an important consequence for local financial markets: the state and banks regained access to external financing. Encouraged by the recession and falling interest rates in North America and Western Europe, capital flow migrated toward what were called "emerging markets." In the IMF's view, insofar as Argentina had imposed strict budgetary policies, had passed and ratified reforms under a democratic government, and had demonstrated the ability to withstand external turbulence, it merited the status of a "good student" of the lessons taught by international financial organizations.

Although it remains associated with Carlos Menem's Peronist government, the Convertibility Plan succeeded in surviving political change before collapsing in 2001. Around 1999, while Peronist leaders were criticizing the adverse social effects of the peso-U.S. dollar parity, the Alianza, a center-left political coalition, pledged to improve the social situation while maintaining stability. This new party won the 1999 presidential elections and soon began an unpopular reform of employment contracts, as well as numerous budgetary adjustments. Despite these efforts to maintain the Convertibility Plan, a succession of financial crises eroded investors' confidence.<sup>11</sup> At the beginning of 2001, all indicators showed deterioration: the

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11 The South-East Asian crisis (1997), followed by crises in Russia (1998) and Brazil (1999), created widespread mistrust among investors toward all financial markets classified as belonging to emerging countries. The Brazilian devaluation—which

country had not resumed economic growth since 1999, the collapse of Argentinian securities and the withdrawal of bank holdings accelerated, unemployment reached 18%, poverty increased, and demonstrations were held throughout the country. There were, certainly, extraordinary loans from international organizations that served as “breaths of fresh air” for the government. By 2001, government initiatives to avert an all-out crisis were dizzying. After the downfall of two ministers, Cavallo returned to the Ministry of the Economy, welcomed by some as the savior of the nation. He was granted extraordinary powers that permitted him to enact the “zero deficit,” to accept the use of quasi-currencies, and to limit bank withdrawals for individuals. Far from stabilizing the country, these policies resulted in a violent political crisis several months later. On December 19, 2001, looting broke out in most major cities, and a virtual civil war began between the starving population and business owners. Several hours later, the middle class mobilized to demand the government’s abdication. Five presidents came and left in rapid succession over the next few days, the government defaulted on its debt, and the Convertibility Plan was finally abandoned.

Compared with these dark images, the situation in 2008, when this paper was written, was quite different. When President Kirchner announced the end of default on Argentinian debt in 2005, one of the final issues arising from the end of convertibility seemed settled. The government had gradually negotiated the absorption of quasi-currencies with provincial governments, and the peso became the sole currency in use throughout the country. After a period of general mistrust, Argentinians were making new bank deposits and withdrawing funds in pesos. The national currency seemed to be gaining ground against the dollar. In addition, although there had been an undeniable reduction of wages, public employees were recovering and, in many cases, seeing improvements in their salaries. The scenario in Argentina in 2008 not only differed in terms of the conditions established by the Convertibility Plan and the chaos caused by the crisis. For the first time in nearly three decades, the state’s fiscal situation now seems solid. The re-establishment of tariffs on agricultural products and fuels as well as the return of growth has produced a significant budgetary surplus. The devalued (favorable) exchange rate allows local producers (including industry) to perform particularly well in the global market. The connections between Latin American governments also raise the possibility of expansion of business dealings with countries in the same economic bloc. Economic stagnation seems a thing of the past and inflation rates continue to be even lower than in the period before the 1970s: between 2003 and 2007, the GDP experienced uninterrupted growth at around 9% per year with inflation rates at around 20%.

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suddenly made this neighboring country much more competitive—not only had repercussions for Argentinian exports, most of which were destined for Brazil, but also provoked the relocation of some industries to Brazil, attracting high-profile media attention.

## 2.2 RUSSIA: FROM ATTEMPTS TO REFORM THE SOCIALIST ORDER TO ABORTED "SHOCK THERAPY"<sup>12</sup>

The ideology of economic growth and consumer society, in full bloom in the West since the 1950s, was echoed on the other side of the Iron Curtain. Soviet leaders pledged that communism meant, above all, increasing the living standards of the people. Along with the arms and space races, the competition between West and East played itself out in terms of economic growth and wealth distribution. In the period after the Second World War, there was gradual improvement in Soviet living conditions, as well as definite progress in the social welfare system and public services. However, the USSR was far from reaching its ambitious goal of "catching up" with the West, particularly the United States. The apparent stability of the Soviet regime hid failures that pushed the authorities to search endlessly for new solutions to the state's chronic problems. Inflation was not a major preoccupation for the Soviet authorities (as it was in Argentina), owing to the planned economy in which the majority of prices were fixed by the state. Yet, equally serious problems, including economic imbalances, supply difficulties and shortages, a weak return on investments, socialist labor's low productivity, and the inability to encourage innovation in various productive sectors, persisted until the USSR's collapse.

In order to reach its goals of modernizing the economy and coping with its problems, the Soviet government undertook, at different times, many efforts to reform or readjust the socialist system. Without officially renouncing the superiority of central state planning over spontaneous, "chaotic" development of capitalism, these attempts in fact consisted of efforts to integrate elements of the market economy into the Soviet system. The price reform under Khrushchev and the experiments undertaken as part of the "Kosygin reforms" in the mid-1960s were conceived in this spirit. Price reform was intended to reduce the structural disproportions that had accumulated in the Soviet economy (including the discrepancy between supply and demand resulting in an accumulation of unsold goods). It was also designed to motivate companies to increase the quality of their products and implement new technology. Finally, it aimed to regulate the flow of production according to the principle of supply and demand. As for the reform of planning, more autonomy was given to sectors and businesses in order to ensure a more intelligent use of resources and to increase productivity. It is difficult to measure the true impact of these reforms, since they were implemented incompletely and inconsistently. But, if the USSR's economic statistics are to be believed, the five-year period that followed them (1965–70) was the most successful of the postwar era.

These new directions in economic policy sparked an interest in the science discipline of economics, which had become, as in the West during the same time

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12 This section of the article is based on a survey conducted as part of a dissertation: Kirtchik 2007b. There is a relative scarcity of works that undertake a comprehensive and systematic review of the reforms in the USSR and post-Soviet Russia. Some key references include: Chavance and Hauss 1994; Gaidar 1997; 2006; Lewin 1974; Sapir 1990, 2002; Shubin 2001; Sutela 1991; Chubais 1999.

period, a tool of economic policy. Starting in the mid-1950s, scholars abandoned dogmatic Marxist-Leninist plans for a transition to a non-monetary economy in their discussions of price, profit, and material incentives for producers. A “pro-market” movement crystallized among administrators, economists, journalists, and other intellectuals. This has allowed some, including Anatolii Chubais, one of the key figures of Russian radical reforms, to link privatization, the ideas of perestroika, and Kosygin’s economic reforms: “During this period, the idea that effective work requires material stimulation, which today seems totally commonplace, saw the light of day for the first time since the war.”<sup>13</sup> The “marketist” label therefore designated in the Soviet Union economists of diverse specializations and institutional affiliations who advocated, in more or less radical ways, the extension of “monetary-market” relationships (to use the language of the period) in the Soviet economy. The most radical went so far as to demand that the state no longer manage the economy and that directive planning be abandoned. Such assertions were not yet acceptable in official discourse, and the authorities put an end to speculation about a “socialist market” with the Soviet invasion of Prague in 1968.

The need for reform was again brought to the fore with Andropov’s arrival as Secretary General in 1982. That year marked the beginning of an intellectual movement that aimed to revitalize the socialist system. This revitalization was not designed as a comprehensive restructuring, but gave priority to productive modernization. Just as in 1955–65, Soviet leaders concern for economic matters contributed to promoting economists not only as experts close to politics but also, increasingly, as public actors. “Reformist” Soviet economists were critical of the state of the Soviet economy and, in developing reform plans, affirmed the necessity of an in-depth overhaul (*perestroika*) of the “archaic” system of ultra-centralized administration. The spokespeople of the socialist system’s reform emphasized the “waste” and “parasitism” as well as the extreme “bureaucratism” responsible for economic failure: the problem of motivating workers was central. With the aim of encouraging initiative and responsibility within the workers’ collectives and producing more rational productivity, an “economic experiment” was launched in 1984 that consisted of pushing hundreds of companies toward a system of self-management and self-financing.<sup>14</sup> This measure reflected a real desire to modernize the country, without rejecting central planning or the Party’s political monopoly.

However, the second half of the 1980s, which was characterized by a definite economic liberalization, was also marked by the emergence and propagation of alternative (including anti-socialist) views, the institutionalization of protest movements, and the assertion of new power centers including parliament, the soviets,

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13 This quote is taken from a collective work by the liberal reformers of the first post-Soviet Russian government (Chubais 1999:19).

14 In the spirit and continuity of these economic experiments, the 1987 Union-wide law “On State Enterprise,” as well as a series of other laws, established the rules of socialist property relations meant to be created under this new regime of “fully autonomous accounting” and self-management of public enterprises.

and the “democratic media.” Criticism of the regime made possible by the emergence of a free press mainly took the form of denunciations of “economic” aspects of the socialist system, presented by reformist economists as inherently ineffective, irrational, and irreparable. Despite these negative judgments, the measures designed by authorities did not yet depart from the traditional framework of “socialist choice.” Certainly, laws “On Individual Enterprise” (1986), “On Cooperation in the USSR” (1988), on land leasing (1989) and others represented deep ideological and socio-economic changes, which came close to affirming competition and the “socialist market” as driving forces of the Soviet economy. Still, private enterprise was subject to many restrictions, as well as administrative supervision and arbitrariness.

After 1989, worsening economic and political problems brought about more important changes. This year not only saw the disintegration of the European socialist bloc, symbolized by the fall of the Berlin Wall and the official announcement of the end of the Cold War, but also the violent suppression of a peaceful demonstration in Tbilisi and indications of disintegration in the USSR. Against this backdrop, the Soviet Union’s leaders began to awaken to the seriousness of negative trends in the economy, including the budget deficit, financial and monetary difficulties (see Table 2), and the deterioration of the consumer market. Once the “crisis” was defined, the understanding of these problems themselves changed dramatically. Before 1989, these problems had been analyzed as the results of deviation from socialist principles; therefore, the solution lay in returning to core values. After 1989, economic problems were considered insoluble within the existing model. Starting at the end of 1989, moving toward a market economy began to be seen as the one and only solution.

Of course, even in this reformist market, many “anti-crisis” plans were developed and discussed during 1990 and 1991. The most important reform programs (reviewed and/or adopted by the authorities at one point or another) are associated with the names of three economists: Abalkin, Iavlinskii, and Gaidar. Their teams worked in close contact with Western (neo)liberal (anti-planning and anti-state) economists.<sup>15</sup> Their plans for the move toward a market economy already contained the pillars of “transition” ideology: efforts at financial stabilization, liberalization (including prices), and the privatization of public enterprises. They differed in their views on the pace of transition (shock therapy or gradual reform), on the politico-economic nature of the future system (mixed or purely capitalist), and lastly, on the different possibilities for relationships between the union and the republics, which went so far as to suggest the dissolution of the former. The most radical voices advocated immediate “transition” to a free market and democracy. The first two plans were not carried out, due to the intense political conflict between the union and the Russian

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15 Thus, from December 1989 Gorbachev sent his economic consultants to the IIASA (International Institute for Applied Systems Analysis) in Vienna to request institutional assistance in organizing a team of American economists to serve as consultants in the transition to a market economy (Bockman and Eyal 2002:343). Regular meetings between Soviet and foreign economists, in Moscow and the West, helped define the general direction of the market transition.

Republic as well as dramatic disagreements among the elites, the beginning of the Soviet Union's de facto disintegration, and growing economic difficulties, due mainly to the fiscal deficit. Some economic liberalization measures, fairly radical but non-systematized, were taken by the Soviet and Russian governments, with the latter increasingly taking the initiative. These measures consisted of land and agrarian reform adopted by the Soviet and Russian parliaments in 1990, laws in the USSR and the RSFSR on denationalization and privatization, and several others.

Despite these initiatives, Western governments demanded that the Soviets make even stronger efforts toward political and economic liberalization in order to receive the economic assistance of international financial organizations—a strategy commonly used in its dealings with developing or emerging countries. The program for the integration of the Soviet economy into the global system was based on a clearly neoliberal orientation, as seen in a program entitled *Window of Opportunity*, written jointly by Soviet and Western economists (Allison and Yavlinsky 1991). This document no longer made any mention of “socialist choice” and explicitly referenced the Marshall Plan: the Cold War was over, so the West had an interest in the USSR rejoining the family of developed industrial countries. The “political” reforms included the restructuring of the Soviet state and the creation of a civil society. The “economic” reforms were divided into two stages, aimed at price stabilization and liberalization, property privatization, and the opening of the country to the global market. International organizations (the IMF and the World Bank) were supposed to play a central role in drawing up a program of action and evaluating the contributions of Western aid.

The implementation of the *Window of Opportunity* program, made public in July 1991, was compromised by the hard-line conservative putsch of August 1991.<sup>16</sup> The Soviet government was dissolved, and power was effectively transferred to the Russian Federation. In the fall, Boris Yeltsin, elected president of Russia a few months earlier, presented the main theses of the new action plan prepared by the Gaidar group. Ignoring the *Window of Opportunity* program, Russia planned to begin reforms alone, without waiting for the other republics. The reforms proposed by the group included immediate price liberalization and structural transformations (notably privatization and property reform), opening the economy, and preparing to introduce a new currency, the Russian ruble. The main dilemma at the time was whether to liberalize prices immediately and fully, or gradually. The previous programs of market transition had envisioned an initial period of stabilization and structural reforms, notably privatization. The major concern was the specter of hyperinflation inevitably resulting from unlimited liberalization without prior stabilization and reduction of the money supply, and the introduction of a currency independent from the other Soviet republics. Since these measures would require, according to Gaidar, far too much time, the government opted for immediate liberalization, suggested notably by Jeffrey Sachs, a fervent advocate of “shock therapy” in Eastern Europe. While it

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16 In this context, “conservative” means “communist,” or more precisely, the anti-reform and anti-market wing of the Political Bureau of the CPSU.

remains controversial whether these efforts were justified by the economic emergency, it is certain that politically, this reform strategy fulfilled the Russian president's ambition to make a radical break with the past.

The winter of 1991–92 was a period of great uncertainty and risk, but also of great freedom of action for the “reform government,” which benefited from a vote of confidence from the population and the disorganization of the opposition. On January 2, 1992, almost all prices were liberalized, except for bread, milk, alcohol, utilities, transportation, and fuel, which remained regulated but would also eventually undergo increases. The government introduced a 28% value-added tax, although it also eliminated all limits and taxes on imports in order to stimulate private business and stock the consumer market. On the eve of liberalization, the reformers announced that prices would rise by no more than 200–300%. But by the end of January 1992, inflation had reached 352%. The government's immediate goal was to control hyperinflation and stabilize finances through a strict fiscal policy, including the greatest possible reduction in public spending. It therefore dealt with the wheat shortage by offering export credits in exchange for American aid.

This strict financial policy lasted only from January to April 1992, due to growing pressure on the president. The confrontational policy pursued by the government had damaged the financial interests of nearly every social group and economic sector. Citizens' savings were wiped out. The bankruptcy of *Vneshekonombank* deprived companies of nearly all their savings in foreign currencies. The liquidity crisis that led to the suspension of payments and the increase in enterprises' debt became the most acute problem in the period following price liberalization. Among the typical reactions observed were the development of barter, mutual debt forgiveness, attempts to introduce local currencies, wages in kind or non-payment of wages, and finally, massive layoffs. All these factors led to a rapid loss of confidence in the reforms and the formation of a “pro-inflationist” coalition advocating increased government spending. Parliament, in an effort to distance itself from “the monetarists who ruined Russia,” openly opposed the government. Faced with this virulent opposition, Gaidar, who in November 1991 had been appointed deputy prime minister as well as minister of finance and the economy, was forced to resign in December 1992. He returned to the government for several months on the eve of the political crisis of 1993. This period was marked by diarchy, not to mention growing anarchy that ultimately led to the dramatic events of October 1993 following the president's decision to dissolve parliament.<sup>17</sup>

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17 Here is a brief summary of the bloody events that led to the removal of the entire power structure inherited from the last years of the USSR. On September 21, 1993, the president declared the dissolution of the Supreme Soviet and the Congress of People's Deputies, established an interim system of federal power, and set the date for new parliamentary elections. Meanwhile, the Constitutional Court ruled the president's decree unconstitutional and the Supreme Soviet voted to end the president's term. The next day, Vice President Rutskoi declared himself president, and parliament gave power to alternative ministers, only to find itself trapped by a blockade of its building organized by President Yeltsin. On October 3 and 4, after Moscow City

Unlike in Argentina, where the “miracle formula” of dollar-peso parity helped combat hyperinflation and allowed radical reforms while maintaining relative social peace and political stability, “shock therapy” plunged Russia into a long and painful period of political, social, and economic turmoil. The 1993 constitutional reform, which granted extraordinary powers to the president, failed to achieve a consolidation of the elites and the realization of structural reforms, including the reform of the social system. However, the privatization of state and municipal property—a key part of “radical reform”—continued at high speed. Those early years of reform saw the formation of the private sector by means of the “small” privatization of 1991–92, the voucher privatization of the majority of public companies,<sup>18</sup> and finally, shares-for-loans auctions in 1995,<sup>19</sup> as well as the creation of still-imperfect market institutions (such as banks and a stock market).

But liberalization and privatization failed to either fill the treasury or attract desired investment. Beginning in 1993, the state began issuing short-term bonds (GKOs) and other securities to finance the budget deficit. But in the context of a dramatic decline in production (around 50% by 1998) and increasing foreign debt (Soviet debt as well as new loans), interest payments on GKOs were made by the increasingly large sale of a new series of bonds to a number of national and foreign investors<sup>20</sup> until the state was obliged to suspend payments on its debt on August 17, 1998.

The state’s declaration of bankruptcy provoked a widespread financial crisis, and the consequences were most severe for the emerging Russian banking sector (over

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Hall was occupied by supporters of the Supreme Soviet and armed conflicts broke out near the Ostankino television tower, Yeltsin declared a state of emergency. The White House (where the Supreme Soviet was then headquartered) was stormed by tanks, and political opponents were arrested while Yeltsin regained control of the situation.

- 18 During this massive and completely unprecedented privatization of public property (1992–94), 16,462 enterprises, with a total registered capital of 1,421 trillion rubles, were auctioned off for vouchers (See the *Otchet ob osnovnykh itogakh chekovoï privatizatsii GKI za 1994 god [The principal results of the voucher privatization of the State Property Committee for 1994]*).
- 19 These shares-for-loans auctions were largely responsible for establishing a perception of privatization as unfair and even illegal in the eyes of the public. In November–December 1995, key companies in the oil, gas, and metallurgy industries, as well as major steamship companies, were sold under insufficiently transparent conditions and below value.
- 20 This state-run pyramid scheme is sometimes compared to the most famous Ponzi scheme, Sergei Mavrodi’s *MMM*, which between 1992 and 1994 attracted private investment, mostly from the savings of ordinary citizens, by promising interest rates of 200% per month. Over 10 million people fell victim to this gigantic scam. Inspired by the “success” of *MMM*, other pyramid schemes, including *Khoper* and *Vlastelina*, proliferated during the 1990s.

half of all banks, including almost all private banks, went under). The strong devaluation of the national currency also destroyed many small and medium-sized companies. A large part of the population once again lost its savings. At the same time, paradoxically, the crisis’s long-term effects on the economy were positive: as in Argentina, the devaluation of the currency (previously kept strong by the Central Bank) privileged national producers, giving rise to a resumption of industrial and agricultural production. A favorable macroeconomic situation during the 2000s—the flow of foreign investment in tandem with dramatically increasing prices for natural resources, notably oil—allowed repayment of a substantial portion of foreign and national debt and allowed economic growth of 7–10% per year for several years. The gradual increase in the standard of living and the consolidation of executive power has provided the basis for the “stability” of the Putin era, a stability that has concealed the political and social conflicts characteristic of the turbulent Yeltsin years.

Table 1. The Four Stages of Reform

<i>Stages of “Transition”</i>	<i>Argentina</i>	<i>USSR/Russian Federation</i>
<b>Attempt at economic reform without political reform (“dictatorship”)</b>	1976–83: price liberalization, financial and commercial opening of the domestic market, stabilization measures followed by currency devaluation	1983–88: decentralization of economic management, expansion of companies’ rights, passing of auto-financing system: acceleration (uskorenje) policy
<b>“Moderate” economic reform + democratization</b>	1984–89: democratization of political regime, development of several anti-inflationary plans, including the “heterodox” program: <b>Austral Plan</b> (1985: shock against inflation), aiming to stabilize currency and prices, reduce the fiscal deficit, and repay foreign debt.	1989–91: democratization of political regime, development of several market transition plans, beginning of denationalization of businesses and property, introduction of agricultural leases
<b>Outcome of the two first stages</b>	worsening fiscal deficit, speculative trajectory, financial assistance in exchange for reforms	worsening fiscal deficit, indebtedness, political crisis and disintegration of the USSR, financial assistance in exchange for reforms

21 “Denationalization” (*razgosudarstvlenie*) does not necessarily imply privatization, i.e. private forms of property and the market circulation of property rights, but rather the introduction of some new forms of property (individual or cooperative property, renting or farming, etc.) within a socialist central-planning system.

<p><b>“Radical” reforms and consolidation of Presidential power</b></p>	<p>1989–99: enactment and consolidation of “structural reforms” and exchange rate parity under President Menem’s administration: privatizations of national companies, commercial and financial liberalization of domestic market, lowering of most customs tariffs, deregulation (transport, industry, agriculture), reduction of public spending, price liberalization, convertibility between dollar and peso. 1999–2001: change of political system, continuity of economic program.</p>	<p>1992: <b>“shock therapy”</b> under President Yeltsin’s administration: immediate price liberalization, financial and commercial liberalization, relatively strict, then inflationary monetary policy (issuing of currency by the Central Bank to cover the budget deficit and assure budgetary responsibility) <b>Privatizations:</b> privatization by vouchers sold directly or by bid, shares-for-loans auctions (1995), housing and land privatization (dachas, gardens...)</p>
<p><b>Economic revival after crisis + adjustments to the neoliberal model</b></p>	<p>2001–2: Non-payment of public debt and abandonment of convertibility. Economic and political chaos: devaluation and inflation. 1999–2008: economic growth, average but persistent inflation, liberalization measures accompanied by growth in state interventionism and influence in strategic sectors; the increase in public spending.</p>	<p>1998: Non-payment of public debt; devaluation of national currency, crisis of banking system. 2003–8: economic growth encouraged by increase in resource prices (soy, wheat, oil), average but persistent inflation, growth in state interventionism and influence in strategic sectors, increase in public spending.</p>

The first result of this comparative analysis is a very similar logical succession in the reforms adopted in Argentina and Russia (see Table 1).<sup>22</sup> First, an attempt at economic liberalization without plans for democratization took place under an

22 It must be emphasized that before this date, there was a contrast between Soviet stability (or at least its appearance) and Argentinian instability. In the case of Russia, one party succeeded in strictly controlling and shaping all of Soviet society; it proved capable of carrying out a highly centralized industrialization and modernization. For Argentina, the crisis of the 1930s was followed by a succession of civil and military regimes unable to retain control of the government and assure a relatively coherent socio-economic orientation.

authoritarian and repressive regime starting in the late 1970s.<sup>23</sup> Next, there was a stage that combined market and political liberalization in a somewhat contradictory manner that demonstrated hesitation to completely abandon the previous paradigm of development. Although they encompass disparate policies and debates, the economic outcome was very similar in both cases. In the USSR and Argentina, this stage ended toward the late 1980s in a worsening fiscal deficit, rapidly growing state foreign debt, and the government's increasing dependence on foreign financial aid. It was followed by the adoption of radical reforms, inspired by neoliberal ideology, that derived their authority from the strong moral imperative of "normalization," i.e. alignment with the Western economic (market) and political (democratic) order. Finally, both countries experienced a "post-neoliberal" stage that combined economic growth with deviations from the normative model that inspired the "radical" policies of the preceding stage.

We have seen that at each step, although there was always a political will to reform, economic knowledge and economists played a role that cannot be ignored. Economists developed ways of interpreting the Argentinian and Russian economies. They participated in their diffusion and defense, in their construction, and finally, in the establishment of institutional decision-making models. We do not need to believe that they anticipated what was to come in order to affirm that as fundamental actors, they need to be studied in order to understand the changes. Economists structured the interpretations, power networks and models that gradually came into being as mediators between national and international frameworks, universities, political parties and the government, scientific truth and national aspirations.

### **3. REDEFINING RELATIONSHIPS BETWEEN THE ECONOMIC AND THE POLITICAL BETWEEN CRISES**

In Russia and Argentina in the late 1980s, the state seemed incapable of overcoming its growing problems and, therefore, found itself increasingly dependent on foreign financial and technological aid. Neoliberal ideology, driven by the international financial institutions, uses a market model to explain society or, to borrow the definition of Pierre Rosanvallon, tries to realize a "utopian formula of suppressing the political" (Rosanvallon 1999:224). In other words, the state is supposed to minimize its intervention in the economic sphere, which is seen as completely autonomous from other human activities.

In trying to direct political action scientifically, this model drives a wedge between economic and social problems, and between economic and social policies. Economists entrusted with high-level governmental responsibilities echo in public discourse this presumed divide between the economy, politics, and society (which is

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23 In Argentina, the first stage began under the dictatorship in 1976. In Russia, the first impulse toward reform is associated with preparations for economic reform under Andropov in 1983, but some identify the first turning point as the adoption of the Soviet government's decree no. 695 in 1979 (cf. Chubais 1999:19).

reinforced through the specialization, and the resulting separation, of the social sciences). The economy itself underwent profound transformations in both countries: from a science or technique integrated with reasons of state, to a reality that is supposedly not only autonomous but also determines the nature and actions of the state.<sup>24</sup> We shall take a closer look at the contexts that allowed neoliberal economists to rise to the apex of power and that subsequently paved the way for a relative waning of their influence.

### 3.1. CRISIS AND THE DELEGATION OF PUBLIC JUDGMENT AND POLICY TO ECONOMISTS

First of all, the break with the past that took place in Russia and Argentina in the late 1980s and early 1990s was in large part a result of the preceding period's failure to assure growth and contain social conflicts.<sup>25</sup> As the historical observations outlined in this article attest, the adoption of reformist (and later radical) measures was determined mainly by a feeling of urgency. Authorities began to recognize problems (inflation, stagnation, or technological lags), and experts (economists) both within and outside the administration were called upon to analyze them. Preliminary attempts were made to adjust the existing system and later more significant changes were implemented. In Argentina, the virulence of the social uprisings of the 1970s left an opening—in the form of dictatorship—for persistent inflation, growing foreign debt, and economic stagnation as the principal effects of deregulation. But it was above all the inflationary crisis that increasingly permitted intervention by experts in economics. In a similar vein, the USSR shortly before its dissolution faced pressure on all sides from social, political, and ethnic conflicts. Hidden inflation, the fiscal crisis, and the growth of the budget deficit were at the root of the Soviet government's growing foreign debt (see Table 2).

In light of these circumstances, the authorities in both countries undertook nearly simultaneous attempts at radical transformation. Of course, their situations were quite different at the outset, yet the structural reforms were very similar and were adopted during the same era. In Argentina, the effects of deregulation (in particular the persistence and the sudden rise in inflation in 1989 and 1990) were profound and unbearable, paving the way for the great transformations under democratic government. These traumatic experiences cleared the way for the radical reforms that followed in two stages. In the USSR, the crucial moment was clearly

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24 The economy was first seen a kind of state arithmetic of taxes, banks, and commerce, then as a type of knowledge that served the rational planning of natural resource exploitation and the management of the population, then as a material principle that structured collective identities, and finally as a set of monetary and financial phenomena.

25 This observation is confirmed by other studies, notably Fourcade-Gourrinchas and Babb (2002), who compared the "path to neoliberalism" in four countries (Chile, Great Britain, Mexico, and France) and identified several variables, among which the financial and budgetary crisis (balance of payment crisis) in particular can help us understand the nature of the changes.

1990, when crisis became the default language of power and the media, and was magnified by the growing number of anti-establishment social movements and heightened political tensions. In other words, it was a crisis, as an objective and subjective reality, which became the motor of radical reform.

Though the nature of the crisis differed in the two countries, these “test situations” in both cases facilitated the delegation of public and political decision-making to experts in macroeconomics (Trepas 1996:17, 51). Without these crises, which were perceived as insoluble by traditional actors and means, economic experts would never have been able to participate as actively in decision-making. Immediately preceding the adoption of “radical reforms,” economists who shared the general positions outlined in the Washington Consensus were promoted to key posts in the administrations of both Russia and Argentina. Argentina’s last military dictatorship and its first democratic government had already seen strong ministers of the economy: José Alfredo *Martínez de Hoz* (1976–81) and Juan Vital Sourrouille (1985–89). After 1991, however, there was effectively a two-headed government. Domingo Cavallo (1991–96) and Roque Fernández (1996–99) occupied the Ministry of the Economy for lengthy periods and during their tenures concentrated the power of several state institutions responsible for making and implementing decisions, with the help of a group of trusted collaborators. Unlike previous ministers, they had “professional” backgrounds and enjoyed special privileges: even though Argentina was now a democracy, the ministers of the economy side-stepped political discussions and the control of political parties, dialogue with social partners, and the control of parliament and the justice system. There was a similar “reign of economists,” albeit to a lesser extent, in the late USSR and in Russia. In 1990, an economist, Grigori Iavlinskii, was named vice prime minister of the Russian Soviet Federative Republic and chairman of the State Commission of the USSR for Economic Reform, which also employed other renowned Soviet economists. In 1991, he was replaced by another economist, Egor Gaidar, who was responsible for the launch of Russia’s “shock therapy.” The name of yet another economist, Anatolii Chubais, became synonymous with privatization. Members of the same group of economists occupied other high-level positions in the “reform government.” Though some economists had already served as expert advisors and worked in the economic administration in the USSR, this period saw the promotion of economists to high-level positions invested with real political power.

Secondly, the fact that these reformers were outsiders to the higher echelons of the administration and government agencies is an important factor in understanding the radical nature of the changes.<sup>26</sup> In Russia and Argentina, very few of the economists who participated in economic reform had ever occupied administrative positions before their nomination to the highest levels of government. In Argentina, economists built their reputations through networks developed in universities,

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26 See Fourcade-Gourrinchas and Babb (2002:570). In their comparison of neoliberal experiences in four countries, the authors identified, among other factors, the distance of reformers from the administration as a factor in understanding the relatively radical nature of the transformations that took place.

business, media, and political parties. Soviet economists relied upon networks in the “informal movement,” in the “liberal” wing of the state apparatus, in the Academy of Sciences, and on the editorial boards of official Party media. Unlike other leaders, economic experts often presented themselves as coming from outside the country, outside the political regime. In Argentina, their authority was based on a foreign education and career (Biglaiser 2002; Heredia 2007), their knowledge was based on scientific research and academic study, and their work was developed in “independent” research institutes. In the USSR, the economists who occupied government positions, and those who consulted on the development of reform and law, had obviously been trained in Soviet universities, but some were able to spend time abroad and establish contacts with influential international experts such as Jeffrey Sachs and Anders Åslund.<sup>27</sup> Their authority was based, among other things, on their association with academic institutions with a “reformist” reputation and the capacity to produce independent research (compared with the conventional assertions of socialist political economy).

Thirdly, it was the reference to a specific knowledge, founded on a supposedly universal and ahistorical economic science, that gave reformers their authority. This is illustrated by the case of the most famous Argentinian Finance Minister, Domingo Cavallo. Born to modest means, Cavallo received a public education in Argentina and, upon completion of his university studies, was able to attend Harvard, thanks to a scholarship from the Organization of American States (OAS) and the Ford Foundation. Upon his return, he devoted his energy to getting close to circles of power through involvement in the professional community, the press, and politics. He founded the *Fundación Mediterránea*, a research institute with member economists throughout the country, published two periodicals and several general interest books, actively participated in conferences for entrepreneurs and professional economists, and maintained a constant presence in the media, notably in the written press but also on television. Though he kept close ties to the media, Cavallo was exceptionally intolerant of those who criticized him, denouncing them as “imbeciles” and calling their arguments unfounded.<sup>28</sup>

Unlike Cavallo, Gaidar was born into a privileged intelligentsia family that included famous writers and journalists, and studied economics at Moscow State

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27 A detailed discussion of these experts’ activities in Eastern Europe and Russia—particularly the creation of the Chubais-Gaidar-Sachs network—is offered in Wedel (1998).

28 To provide one example, in 1994, in the face of a sudden and acute increase in unemployment, the sociologist Susana Torrado told the press that the employment crisis could be linked to the economic plan, and the country’s competitiveness problems were related to dollar-peso parity. Minister Cavallo reacted violently to these statements. Not only did he call the sociologist incompetent, but invited her to “go home to do the dishes.” He even threatened to close the National Research Council, which employed her. For more about Cavallo’s stormy relationship with the press, see Ruiz (2005) and Heredia (2007).

University, the most prestigious institution in the country. After a brilliant academic career, he was named economic editor for the official Communist Party mouthpieces *Pravda* and *Kommunist*. In 1990, he founded the Institute for Political Economy, a new “independent” research institute. Before being appointed to direct economic reform in the Russian government, he was one of the leaders of the “Moscow-Leningrad school,” which formed over the course of a series of colloquia devoted to the analysis of the state of the Soviet economy and its prospects starting in 1986,<sup>29</sup> and whose members were invited to join a working group on ideas for future reform in 1991. The group was composed of young economists (30 years old on average) who would all go on, at one time or another, to work in the government or the presidential administration, run businesses and think tanks, and influence politics as experts.

These economists asserted themselves by downplaying criticisms by other specialists. The radicalism of these “young economists” (corresponding to the radicalism of the reforms envisioned in both countries) marginalized older economists who opposed the government’s policies and/or found themselves outside the new mainstream. The latter found the only outlet for their ideas in the opposition press. In Russia, this often meant the communist and nationalist press. They had even more trouble maintaining credibility since the “neoliberal revolution” necessarily implied a radical break with the old ways of teaching and practicing economic science (Chmatko 2002). Economics before 1992 was seen essentially as an ideology, not a science. The liberalization of the economy was accompanied by an invasion of Western economic theories, notably monetarism, versions of “economics,” and formalization of economic theory. A similar process took place in Argentina: the older generation of economists, who had tried to introduce moderate reforms during the 1980s, was completely discredited by hyperinflation. Given the near-monopolistic hold of neoliberal economists on the official media’s attention, dissenters experienced a remarkable marginalization in the academic community. In both Argentina and Russia, those who supported or had supported liberal economic reforms were no longer considered “liberal” economists, but simply “economists.” During this period, merely belonging to the profession presupposed the acceptance of certain principles—the ones that had served as the basis for reform. In academia, a specific connection was established between Americanization and the privatization of higher education: for private universities, relationships with institutions abroad were the primary means of establishing authority. These universities emphasized the reproduction of American models of management and scholarly work.

This technical method of resolving public problems not only implied a re-arrangement of authority, elites, and professional circles, it also imbued all public action with a scientific logic. In the resolution of certain macroeconomic controversies, the testing of a system of hypotheses coincides with the construction

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29 In the fall of 2006, to celebrate the twentieth anniversary of this conference named after *Zmeinaia gorka*, a boarding-house near Leningrad, a Russian online magazine published a series of interviews with some of the members, available at: [www.polit.ru/story/zmeinka.html](http://www.polit.ru/story/zmeinka.html).

of an interventionist model: science, technique, and political action merge. By consequence, the distinction between description, legitimization, and transformation becomes extremely tenuous.

Thus, the history of the rise of economists to power is also that of the reduction of citizens to *homini æconomici* (exclusively guided by calculation), of societies to full-scale living laboratories, and of politics to the devising and implementation of scientific experiments. Muniesa and Callon (2007:163) called this process "*in vivo* experiments," that is, attempts "to solve a problem by organizing trials that lead to outcomes to be assessed and taken as starting points for further action." These experiments imply a process of borrowing, manipulating, and demonstrating. In this sense, these experiments illustrate one specific manifestation of the performativity of economics (Callon 1998). Indeed, "economic phenomena" depend, especially in a process of crisis and profound transformation, on the manner in which economists (acting as scientists and technicians) construct, condition, and discuss (with or without the participation of the layman) the reality that they claim merely to observe. These interventions not only involve government economists and citizens but all of the individuals, skills, information, techniques, instruments, and procedures (MacKenzie, Muniesa and Siu 2007:5) that attempt to align reality with the equilibrium prescribed by their model.

### 3.2. DEMOCRACY FORFEITED? THE CONSOLIDATION OF EXECUTIVE POWER

In both Argentina and Russia, pro-market reform (often labeled "structural adaptation" and "transition") had a strong moral component: the idea of building a better political order founded on democratic values. During the second phase of reform in both countries, there was strong disapproval of dictatorship and its crimes. This became fertile ground for the classic liberal argument asserting a necessary link between economic and political freedom (studied in Hirschman 1977). This argument was vigorously reasserted during the postwar period, notably by Hayek (1944) and Friedman (1962). In the USSR, it was reclaimed by "young" economists, journalists and other public figures of perestroika, often themselves former dissidents, who since 1987 had been demanding increasingly radical reforms.<sup>30</sup> Reliance on this argument distinguished them from another subset of reform supporters who advocated a progressive convergence of the market and the central-planning system, making reference to Lenin's New Economic Policy and other theories of "market socialism." One cannot help but notice that in both countries, a schism occurred between advocates of radical reform and supporters of moderate transformations—transformations that were more sensitive to social costs. In Argentina, this connection would not have been possible without the double defeat of 1983: the collapse of the military government and the Peronists' defeat at the first post-authoritarian polls. In this context, certain liberal intellectuals, who supported the ideas of Friedman

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30 On the question of the legitimization of market reforms in the USSR, see Kirtchik 2007a.

and Hayek, aligned themselves with the radical government, highlighting the connection between political and economic freedom.

This alleged connection between democracy and the market was by no means readily accepted. In Argentina politicians pledged, in opposition to the discredited military government, that democracy would rebuild the sectors adversely affected by the dictatorship and yield decision-making power to the sovereign will of the people. They promised that democratic government would improve the situation of those who had experienced a dramatic deterioration in living conditions. Nevertheless, in the late 1980s, as the authorities realized that market liberalization and changes in government were the only means of stabilizing the economy, their interpretation of the role of democracy changed noticeably. In view of the importance accorded to the economy, President Alfonsín associated democracy with “order,” “public security,” respect for life and “freedom.” In this context, workers’ unions were seen as clinging to old “corporate” practices and became “enemies of democracy,” just like the armed forces. Russia experienced a similar shift in the perception of change, as the idea of an immediate switch to a “free market” was advanced. Although the USSR’s Congress of People’s Deputies, which came out of the first partially free elections in 1989, had a tendency to adopt costly social programs—notably investing in rural renewal, subsidies for farmers, etc.—these actions were seen as “populist” and “dangerous” by liberal-leaning economists. Separation of powers between branches of government; multiple-candidate elections; the (re)appearance of political parties, NGOs, and other participants in civil society; and greater press freedoms all heralded Russia’s political liberalization. But as the crisis worsened, the market was seen increasingly as an ideal, self-propelling motor for institutional transformation, to the detriment of democracy as a complex configuration of political and social forces.

The initial connection between moderate reforms and the public and political opening which took place in the 1980s eventually led, in both nations, to a narrow market freedom that was uninterested in—even hostile to—democratic culture. The democratic rhetoric was abandoned as soon as reformers arrived on the scene. Often the representative organizations that had participated in shaking up the old system were considered more of an obstacle than a necessary part of transformation.<sup>31</sup> The social aspirations of unions and members of parliament were viewed as a hindrance to development—due to confusion of the terms “social” and “socialist,” they were associated with the Peronist or Soviet mentality of “parasitism.” Despite a call for ideological pluralism, civil participation, and respect for the law, the adoption of reforms in both Russia and Argentina was made possible through a concentration of power in the executive branch. Instead of deepening and expanding the republican,

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31 In an October 1991 televised interview, Gennadii Burbulis, then RSFSR Secretary of State and Yeltsin’s “gray eminence,” said that “the representative bodies have become largely a drag on our reforms. These bodies were necessary to destroy the totalitarian system, and they succeeded in that mission. Now the Russian territories want a vertical of power.” (Gennadii Burbulis, Appearance on RTV program *Bez retushi*, October 9, 1991; cited in Vorozheikina 1992).

democratic regime, market liberalization contributed to the consolidation of executive power.<sup>32</sup>

In Argentina, however, the economists in power seemed to have a greater hold on authority. The ideological shift from Peronism to neoliberalism and the initial success of reforms eliminated, for several years, all criticism of the government's positions. In Russia, on the other hand, virulent critics of the direction reform was taking were never appeased throughout the 1990s. One can argue, therefore, that in Argentina economists better succeeded in "technicalizing" economic politics by excluding any public discussion of radical reforms, while in Russia, reform remained (up to the 2000s) a purely political issue. It is significant that in Argentina, both orthodox and heterodox economists collaborated with the same political parties without making any lasting commitments. Of course, some famous neoliberal economists attempted to found center-right parties,<sup>33</sup> but these groups never got above third place in elections and always proved to be ephemeral. Seeing political parties merely as vehicles, Argentinian economists of all allegiances put aside partisan differences and were elected thanks to majority parties. In Russia, on the other hand, it was fairly common for reformer economists to have party affiliations. To cite a few examples, Gaidar was president of the electoral bloc "Russia's Democratic Choice" (1994–2001), Chubais participated in the construction of a bloc called "Russia's Choice" in 1993 and then co-founded a liberal party called "Union of Right Forces." Another economist, Iavlinskii, was for many years the leader of the *Yabloko* democratic party. Thus, in Russia, the theoretical and ideological polarization of economists was also manifested at a purely political level during a period in which political parties could influence, with more or less success, the definition of economic policies in the government.

As for the concentration of political power in Argentina, two processes are worth highlighting. First of all, citizens and political parties were the first to be marginalized by the Peronist president. In 1993, Menem publicly boasted of his new golden rule for political conduct, "Never tell your electorate what you are going to do, otherwise no one will vote for you." Critics of his party, deceived by this ideological shift, were stigmatized for expressing nostalgia for the 1940s. Secondly, President Menem further reduced the already limited role of Congress and the justice system. He often accused legislators of sluggishness, repeatedly threatening to veto any laws modified through their intervention,<sup>34</sup> and using executive orders to impose unpopular or

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32 Studies show that this trend toward a consolidation of presidential power, and executive power in general, at the expense of legislative power is also seen in other developing (transitioning) countries as well as in the developed world (Haggard and Kaufman 1995; Loureiro 1997).

33 After leaving Menem's government, Cavallo created the party *Acción por la república*. Ricardo Lopez Murphy, briefly Minister of the Economy in 2001, attempted to win over the electorate with his party *Recrear para el crecimiento*.

34 Indeed, Menem had much greater recourse than Alfonsín to the partial veto. According to Mustapic (2000:18–19), Menem rejected 12% of all laws, particularly those

controversial reforms. According to an analysis of his executive orders, he relied on this method to a much greater extent than any of his predecessors, especially for passing economic reforms.<sup>35</sup> The justice system was also subjected to a decisive intervention by the executive branch (Smulovitz 1995). For a decade, there was talk of an “automatic majority” within the Supreme Court in favor of the president.

Similar processes in Russia during the same period were partly tied to the unpopularity of planned measures (potential and actual) amongst the population and their relatively narrow social base, of which Russian reformers, much like Menem, were apparently fully aware.<sup>36</sup> After the bloody events of the fall of 1993, the Russian president was granted extraordinary privileges, including the right to issue decrees concerning economic reform. Decisions on strategic matters related to the nation’s economic development were increasingly delegated to a technocracy of experts who were a part of or had ties with the government. Certain questions of capital importance thereby escaped public scrutiny. Indeed, public scrutiny itself was dramatically limited: any contradiction of the neoliberal doctrine was prohibited. Opponents of neoliberal ideas were marginalized and stigmatized as defenders of the Soviet past.

These trends were soon denounced by certain authors (including O’Donnell 1992) as expressions of “delegative democracy” in Latin America, and even “market Bolshevism” in Russia.<sup>37</sup> Democracy had been reduced to periodic elections to nominate leaders. After their election, presidents rejected all monitoring. It is important to emphasize that while market liberalization and economic concentration were recognized as universal and “natural” tendencies, the concentration of political power—which made reform possible and which subsequently became characteristic of several political regimes—was often considered a strictly local defect. Certain violent or corrupt practices have often been described as though they were “Argentinian” or “Russian” in nature. The propensities to concentrate power, to evade or bend the law, to skirt monitoring, and to accept illegal bonuses were denounced as deplorable tendencies which were unrelated to the processes underway. As Mitchell (2002:57) has stated about Egypt, “The history of private property is rather silent on

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that had been modified by legislators, “most dealing with structural reforms such as the privatization of gas and electric services, oil, or pension reform.”

- 35 Such is the finding of a study by Ferreira Rubio and Goretta (1998:43–45). The authors cite Cavallo’s 1993 declaration that without executive orders, only 20% of the economic reforms could have been implemented.
- 36 In his 1990 article “Two Programs,” Gaidar explicitly states this. A few months earlier, an analytical note entitled “Setting a difficult course...” published by the Leningrad Association of Economics and Social Sciences and signed by Anatolii Chubais—the man whose name is inextricably linked to “unfair” privatization—acknowledged that “during the process of reform there may be discontent and even resistance from most social groups and the political forces of society” (Chubais 1990:17).
- 37 For more on the authoritarian trends that emerged after the introduction of radical reforms in Russia, see, for example, Reddaway and Glinski 2001; Sapir 2002.

the conditions that produced it and the precedents incorporated into it. [...] The ad hoc, violent, and exceptional character of the law of property was entirely hidden by the presentation of law as something abstract, as a universal rule, with its origins elsewhere, applied to particular circumstances.”

This new form of authoritarianism was encouraged mainly by dependence on the international financial market. While the connection between democracy and the market was invoked in the discourse, a split was nevertheless emerging between the political community on one side, and the economy (from that point on associated with the dynamics of the financial markets) on the other. Political authority was based on periodic elections in which citizens participated as members of a single community. The authority of participants in the financial market, on the other hand, was based on the amount of their capital. While the democracy stood up against the authoritarianism of “corporate” power, seeing it as an example of social power being subordinated to political power, a new mentality was established that centered on the “universality,” “impersonality,” and “flexibility” of the financial markets. The opinion of the participants in the financial market was taken into account to justify the value of the political regime, to come to a decision in each electoral campaign and to legitimize a concentration of power compatible with the development of their activities. At the same time, the majority of citizens and their representatives were unable to comprehend the functioning of the monetary and financial system, to make their opinions heard, or to make changes when confronted with its most destructive effects.

### **3.3. AGAINST CONSENSUS: REFORMS BETWEEN PERSUASION, VIOLENCE, AND HABIT**

Even with a relatively clearly defined program, reformers in Argentina and Russia were not in a position to put it into practice. Issues of *Realpolitik* quickly disrupted the rational world of economic theory, where economics is governed by “universal laws.” For this reason, it is necessary to highlight the absence of approval, among both the elites and the general population in Russia and Argentina, for the strategies of radical reform. However, it is important to bear in mind that in Russia, the reforms played out in a much more contentious context than in Argentina. Among the variables that determined this significant difference are the short-term effects of reforms, their timing, and the strength of the coalitions that supported them.

In Argentina, the considerable political power of President Menem and his minister, Cavallo, rested on their ability to maintain the support of the majority of their original allies, even as they gained the support of others. Menem ran as the representative of a political party and discourse associated with the working class and redistribution policies. His circle included such diverse and relatively marginal groups that they were characterized as an “anti-elite” (Sidicaro 1995). In addition to the support of the electorate and the Peronists, a definite sympathy on the part of the social and economic elites emerged after Menem’s election. While maintaining the electoral and corporate support of these groups, Menem could also count on the backing of groups that benefited from the transformations: heads of international organizations, the American government and foreign business leaders, but also impoverished parts of the population who, excluded as they were from the job market,

were surviving on subsidies distributed through vote-catching efforts. The confluence of the richest and poorest members of society, as well as a certain level of support from the middle class, made this coalition (which remained in power for a decade between 1989 and 1999) seem almost monolithic.

In Russia, the coalition that unconditionally supported reforms was more limited, due to structural opposition between the executive and legislative branches, central power and regional authorities (often controlled by representatives of the former administrative elite), and the finance ministry and sectoral ministries. These oppositions divided society as the reform went on, and remained a source of political tension throughout the 1990s. Although the powerful lobby of former Soviet enterprise directors eventually accepted privatization policies (as it became their primary beneficiary), it maintained a fierce opposition to any reduction in public spending and to the opening of the domestic market. As outlined above, under pressure from the protectionist and pro-inflationist coalition, Gaidar was prime minister for only a little over a year, while Cavallo remained in office for several years. Even including Gaidar's previous term as minister of the economy in September 1993, he was in office less than eighteen months.<sup>38</sup> He was replaced by the consensus-builder Viktor Chernomyrdin, a former high-ranking party member and ex-president of the powerful state corporation Gazprom, who remained prime minister, with brief interruptions, until 1999. Despite the fact that economists close to Gaidar continued to dominate the government's so-called "economic-financial bloc," important reforms were stalled for long periods.

It is important to highlight the different short-term effects of liberalization efforts in the two countries, which assured a certain degree of consensus or which were, conversely, responsible for tension. They determined, to a large extent, the continuity of the programs undertaken by the government. In Argentina, the period of radical reforms (1989–2001) produced positive—even "miraculous"—effects, particularly after the introduction of dollar-peso parity. In Russia, however, the reform efforts introduced through "shock therapy" were immediately catastrophic. During the period from 1992–98, it was as if Russia simultaneously experienced, in a context of political and social conflict, all of the devastating effects of neoliberalism: hyperinflation, the disappearance of private savings and dramatic impoverishment of the population, massive enterprise bankruptcies and therefore an explosion of unemployment, the dramatic collapse of industrial and agricultural production, and the deterioration of public services, notably education and health. In Argentina, those effects were spread out over two decades. It is important to mention the criminalization of economic relationships (mafia-style retribution, predatory takeovers of factories, enterprises, and other property) as well as widespread

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38 Simultaneously, Gaidar's *Democratic Choice* party continued to lose the support of the electorate in parliamentary elections, securing only 15% of the vote in 1993 and less than 4% in 1995, while the Communist Party continued to gain support, winning 12% in 1993 and 22% in 1995.

corruption and other harmful effects associated with the reforms, especially privatization.<sup>39</sup> On the other hand, it has often been remarked that in Argentina the timing of the reforms was inverted (Palermo 1999). While at the outset, citizens benefited from the advantages of the transformations in progress (stabilization, renewed growth, an increase in consumption), by 1995 they were confronted with the more regressive effects (increasing unemployment and poverty, slower growth, rising public and private debt to foreign creditors).

This makes us conclude that the reforms were, to a certain extent, more consensual in Argentina than in Russia. Many citizens and organizations in Argentina welcomed the liberal reforms with enthusiasm and found the consequent stabilization, growth, and modernization convincing reasons to continue on the path of reform. Menem's triumph in the presidential election of 1995 gave them further support. Nevertheless, contrary to the Anglo-American neo-institutional perspective, which relies on the analysis of the World Bank and claims consensus as a fundamental part of the process and support of reform, Argentina faced its share of (symbolic) violence. This was manifested in the permanent threat—evoked by the authorities and entrepreneurs—of a “descent into chaos.” Fear became a powerful argument for maintaining the agreement based on monetary parity. As is often pointed out, the working class had been traumatized by previous hyperinflation. Many surveys show that a third of the population saw another chaotic price increase as probable or even inevitable. The regime gave the middle class another reason for concern: that those who were owed dollars would be reimbursed in pesos. Even for those who actively supported the government's policies, the threat of economic ruin was an undeniable motivator at the polls.

Yet the examples of Argentina and Russia also allow us to highlight that beyond the more or less consensual nature of reforms at the time of their implementation, the hold of neoliberalism on state institutions was equally strong in both countries, and had profound and irreversible consequences for both societies. Although the reforms succeeded in winning over a certain number of allies, this was not always through mere persuasion. These allies found themselves brought together in a new organization and anchored in objects and practices, in which their group interests, previously diverse and even opposed, were united on a daily basis; thus they became dependent on each other (Latour 1995). This is how the features of the emerging social organization were put in place: production was restructured (in particular through a focus on primary resources), the functions of the state were redefined, government was decentralized, many goods and services previously provided by the state were “marketized,” wages decreased, and redistribution of wealth became regressive. In sum, neither persuasion nor violence was sufficient to ensure the hold

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39 Moreover, the majority of Russians (77%) continue to believe that large-scale property owners acquired their possessions illegally (according to a 2006 survey: [www.globalaffairs.ru/numbers/23/6692.html](http://www.globalaffairs.ru/numbers/23/6692.html)), while, according to VCIOM surveys, 47% of the population in 2003 and 42% in 2008 would support revisions of the results of the privatization of the 1990s.

of neoliberalism on state institutions: as they became templates for new practices, new forms of organization relied on habit, inertia and the “force of circumstance” which gave a new context to their actions. Once adopted, the reforms ceased to be mere rhetoric and became structural templates for many routine practices.

### 3.4. THE STATE AND THE MARKET AFTER ANOTHER CRISIS

The defaults announced by Russia in 1998 on its domestic debt and by Argentina in 2001 on its foreign debt provoked profound crises in both countries.<sup>40</sup> The Russian and Argentinian crises were symbolic watersheds. They once again called into question government strategy and gave fodder to foreign and domestic criticism of the free-market fundamentalists. The critics of “neoliberal” expansion (“neoliberalism” now took on a pejorative connotation) denounced American-style globalization and a conspiracy involving the government and international financial institutions. Domestic and foreign economists often speak very critically of the experiences of neoliberal transformation in Latin America and Eastern Europe, and of the role of the economists who led the reforms (e.g. Klein and Pomer 2001; Stiglitz 1998, 2001; Vlachou and Christou 1999). They all highlight the state’s major role in economic life, notably in creating and managing market institutions, as well as in providing social protection to the population. In both Argentina and Russia, the debate on the political economy was redefined in the 2000s. This was particularly relevant in the context of the financial crisis of 2008, whose long-term effects remain, for the moment, difficult to discern.

Recent public debate and political rhetoric strays quite significantly from the original ideology of reform. After the financial crises of 1998 and 2001, new controversies emerged on the two countries’ economic orientation, and the Russian and Argentinian elites adopted critical interpretations of neoliberalism and its experts. In Argentina, the nation’s economic situation became a subject of complex debate as these critical perspectives could once again be heard in the press and influenced decision-making. At the same time, “certain economists” were blamed for the crisis that embroiled the country. All economists were scrutinized, but according to the new authorities, responsibility mainly lay with those who had subscribed to the previously dominant trends and the international organizations that had taught the Argentinians “lessons.” Candidates’ positions on the economic “model” and on “orthodox” economists were at the heart of the 2003 presidential campaign. Former president Carlos Menem represented the order established during the 1980s and evoked the possibility of dollarization or a new convertibility scheme, the governor of the province of Santa Cruz, Néstor Kirchner, openly proclaimed his opposition to “neoliberalism.” Similarly, in Russia the “democrats” (that is, the reform government headed by Gaidar) were assigned responsibility for all the nation’s problems.<sup>41</sup> Anti-

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40 For a preliminary analysis of the financial crises in Argentina and Russia, see Chowdary (2005); Sapir (2002); Sgard (2002); and Woodruff (2005).

41 Egor Gaidar’s death in December 2009 provided an opportunity for a range of comments, sometimes laudatory (“savior of the country”), sometimes (and more often

American rhetoric, including at the highest level of government, intensified throughout the first decade of the twenty-first century.

In Argentina, qualms about foreign advice translated into real changes in high-level political positions and expertise to a much larger extent than in Russia. In Argentina, those economists who came to power after the 2001 crisis belonged to the heterodox schools of economics and had a record as Peronist or leftist political militants. Some economists formerly associated with neoliberalism demonstrated a remarkable pragmatism. However, recent ministers of the economy have only deepened the impression that “the president is the real minister of the economy.” Rather than a reconfiguration of academic circles or a revitalization of alternative economic thought (neither sphere actually saw much change), what happened was that academics and politicians to some extent drifted apart in the sphere of economics. There is thus unsurprisingly a general spirit of opposition to the government among economic specialists. In Russia, on the other hand, the ministers of economy and finance of the Putin governments were recruited from a pool of people who held high-level positions during the 1990s and had reputations as “neoliberal” economists.<sup>42</sup> Left-wing economists did not rise to prominence in the high echelons of the administration or on the public scene.

Beyond the reconstitution or reproduction of the ministerial elites, in both Russia (mostly during Putin’s second presidential term) and Argentina, governments rediscovered their countries’ populist traditions. The dual objective of liberalization and democratization proved impossible to attain as the living conditions of a large part of the population deteriorated, and populism provided an answer. During the first decade of the twenty-first century, both countries clearly tended toward a consolidation of central power, although Russia experience a more radical reinforcement of statist and populist (even nationalist) rhetoric.<sup>43</sup> The return of the state and the social in both countries reflected the need to limit or partially rein in the markets, acknowledging that markets are never self-regulating (see, for example, Fligstein 1996). To repair the damage wrought by attempts to make the neoliberal fiction a reality, the Russian and Argentinian states have both returned to greater interventionism. Both in Russia and Argentina, this statist interventionism in the economy was manifested in policies aimed at the protection or preferential

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than not) extremely critical, reflecting ambivalent perceptions of Gaidar and other reformers and the results of their activities.

42 The removal of Illarionov, economic advisor to President Putin, known for his “ultra-liberal” views, didn’t take place until 2005, following mainly political disagreements (the *Yukos* affair).

43 Russia experienced serious abuses of power: the curtailing of press freedoms, the right to demonstrate, and the right to vote, as well as tight control over the activities of NGOs. In Argentina, the liberals expressed strong criticism of Peronist “authoritarianism,” but despite the patronage networks set up by the party (and which, according to critics, were designed to “buy votes”), it is clear that levels of violence have remained well below those in Russia.

development of certain sectors through financial support or protective tariffs. The intention was to control the distribution of resources and regulate some markets through the creation of regulatory agency and state corporations.<sup>44</sup> In the Russian case, this intervention involved a direct takeover of certain strategic sectors, including oil and gas, by the state (partial renationalization). According to some authors, these developments have resulted in bureaucratic capitalism (Shevtsova 2007) or state capitalism (Rutland 2009). In Argentina, the state established higher taxes on agricultural exports while taking over the management of certain public utilities which had once been privatized or subcontracted. In both cases, large public works regained an importance that had been lost during the reforms.

Change was not confined to finance and production. Both states also presented themselves as more active in social welfare. In Russia, there were increases in the wages of civil servants and retirement pensions. In 2005, several substantial social programs, called “national projects,” were launched in the areas of housing, public health, and national education, although the effectiveness of these efforts remains dubious. Simultaneously, the state pursued a liberalization of its social policies, notably by monetizing benefits inherited from the Soviet system, which provoked a wave of protest in 2004 and 2005.<sup>45</sup> In Argentina, the crisis brought about an unprecedented expansion of social assistance programs food, healthcare, and financial aid were widely provided to the poorest. In neither country were these policies successful in counteracting the social rift or in easing inequality. However, they did improve the quality of life for some of the population. Although there has been some reduction in unemployment, the present situation cannot be compared with the level of integration and prosperity that Argentina enjoyed in the 1960s.

To what extent did the crises in 1998 in Russia and 2001 in Argentina lead to a transformation of the order established by the reforms? Looking at the policies actually put into practice, we may conclude that the Russian and Argentinian governments did not implement completely innovative plans. It would be more accurate to speak of a “forced compromise” which excluded extreme viewpoints, and of a total technicization of government. Thus, it would be premature to speak of a complete break with economic liberalism in the twenty-first century. In Russia after 1998, and in Argentina beginning in 2003, the government practiced even

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44 Several state corporations have been created recently with the aim of controlling entire sectors considered strategically important, for example the production and exportation of weapons and military equipment, as well as high technology (Ros-tekhologii 2008), nuclear power (Rosatom 2008), and aeronautics (OAK 2006). Yet their future is unclear, since this form of economic organization has recently been strongly criticized by the new president, Dmitrii Medvedev.

45 The monetization of certain privileges, such as the free use of public transportation for retirees and certain other groups, provides monetary compensation in lieu of the former benefits; however, this compensation was lower than the actual costs of the services that now have to be paid for, leading to a deteriorating of beneficiaries' living conditions.

stricter policies of budgetary and fiscal austerity than before (see Table 2). In Russia, the government proceeded with restructuring public spending, a requirement for membership in the World Trade Organization, which was one of President Putin's stated priorities. Finally, certain market reforms were pursued, among them tax reform, land reform, the reorganization and privatization of the coal industry, and, more recently, a reform of the power industry.

These observations lead us to the conclusion that the tendency toward increases in government spending, including spending on social programs, by the Russian and Argentinian governments resulted not from of a real reorientation of the state's objectives toward countering the effects of the market, but from the opportunities offered by the spectacular growth experienced in the first decade of the twenty-first century, and recently curtailed by a new global crisis.

**Table 2. Macroeconomic Indicators (1970–2008)**

<i>Indicator</i>	<i>Argentina</i> <sup>46</sup>	<i>USSR/Russia</i> <sup>47</sup>
<i>Budget deficit in %</i>	1975 : 12 % 1982: 10 % 1988: 6% 1991: 1% 2001: 3% <i>Budgetary surplus since 2003</i>	1970–1990: - 1991: 30% <sup>48</sup> 1992–1994: more than 10% 1996: 4% <i>Budgetary surplus since 2003</i>
<i>Inflation by year</i>	<b>Hyperinflation: Cause of Reforms</b> 1975–89: more than 90% per year 1989: 3080% 1990: 2310% 1991–2001: <i>Convertibility Plan</i> 2002: 26% 2003–2006: 13%	1975–1991: <i>State price controls</i> <b>Hyperinflation: Effect of Reforms</b> 1992: 2,508.8% 1993: 834% ( <i>according to IMF</i> ) 1995: 131% 1996: 21,8% 2000–2002: 17,9% 2003–2007: 11,1%

46 For Argentina: data from Gerchunoff and Llach (2007); IPC/INDEC; data from Damill and Frenkel (1990) for the first period (1980–90), then from CEPAL (1991–2005).

47 Data on Russia for this period are from Federal'naya sluzhba gosudarstvennoi statistiki ([www.gks.ru](http://www.gks.ru)).

48 According to Sergei Alexashenko, the budget deficit in 1991 was 34% of GDP; according to the World Bank, it amounted to 30.9% (quoted from Gaidar 2006:386). Data for the Soviet period are not available.

<i>State foreign debt</i>	1980–81: 25%	1981: \$26.5 billion <sup>49</sup>
<i>In dollars and as a percentage of GDP</i>	1989–90: 78%	1991: \$96.6 billion <sup>50</sup>
	1991: 30%	1998: 146.4%
	2002: 90%	2008: 8% <sup>51</sup>
	2005: 36%	
<i>Average growth rate per year (GDP, %)</i>	1970–74: 6%	1970–78: 4%
	1975–83: 0.7%	1979–82: 2%
	1984–89: -3%	1983–85: 1.8% <sup>52</sup>
	1991–94: 7%	1986–90: -
	1995–2001: 0.8%	1991–96: -8.2%
	2003–8: 8%	1999–2007: 6.7%

#### 4. CONCLUSIONS

This article has sought to transcend the opposition between the two previous generations of comparative analysis. The first approach, practiced by economists, centers on the study of “autonomous,” structural/objective variables. The second, developed by political scientists and sociologists, is interested in decision-making and human intervention through transnational networks of expertise. While the first approach concludes that beyond national specificities, different countries showed similar trends and called for similar treatment, the second explains these similarities by the effect of transnational networks of techno-political power. The most recent studies have qualified the universality of these transformations through detailed analysis of national experiences. This focus led them to question the separation between the economic and the political, proposing an “integral” look at recent transformations. However, comparative studies looking for similarities and differences between the different regions of the South or of Latin America and Eastern Europe are still few and far between. Such studies would have the advantage of avoiding the trap of ethnocentrism that often leads to measuring the “flaws” of Latin America and Eastern Europe against a model derived from perceptions of developed countries. As

49 Gaidar 2006:224.

50 Russia recognized \$96.6 worth of Soviet debt (Godovoi otchet Vneshekonombanka 1998:11). Soviet debts to member nations of the Paris Club was repaid in full ahead of time in 2006 (Godovoi otchet Vneshekonombanka 2006:23).

51 Struktura gosudarstvennogo vneshnego dolga po sostoiianiiu na 1 iuliu 2008 goda ([www1.minfin.ru/ru/public\\_debt/external/structure/](http://www1.minfin.ru/ru/public_debt/external/structure/)).

52 Statement of the Honorable Henry Rowen, Chairman, National Intelligence Council, CIA, Before the Joint Economic Committee, Congress of the United States, December 1, 1982 (mimeographed), p. 5–6; quoted in: Millar 1985:695. Soviet official statistics show higher figures. For more on the debate on growth rates in the USSR, see Sapir 1990.

part of this quest for a comparative and decentered perspective, we have sought to suggest some ideas for analyzing the experiences of radical reforms in Russia and Argentina that might prove useful to other students of Latin America and Eastern Europe.

Russia and Argentina can be regarded, according to the distinction proposed by Fourcade-Gourinchas and Babbs (2002:570), as two examples of an “ideological road to neoliberalism.” This means that both countries have gone through reforms that were particularly radical and highly politicized, as opposed to those in other countries that chose more measured and pragmatic paths.<sup>53</sup> Indeed, Argentina and especially Russia attempted to completely redefine the political and economic order in a very short time. Moreover, the shock of liberalization was all the more painful because the two countries had strong interventionist cultures and systems of social protection before the start of radical reforms. Our findings allow us to both nuance and explain these similarities. On the one hand, a medium-term historical perspective shows a similar succession of steps in these transformations. In both Argentina and Russia, the first reform measures passed under authoritarian governments moved effortlessly toward a moderate reformist approach accompanying the regimes’ political democratization until the period of radical reform and concentration of economic and political power in the 1990s. On the other hand, despite the many differences between the two countries, some common features of historical context are relevant to understanding the radical nature of the transformations.

First, the economists’ rise to power can be seen as part of a long technocratic tradition in Russia and Argentina, which has historically assigned a special role to scientists and intellectuals. Russian and Argentinian elites have repeatedly devoted themselves to the task of making government scientific. On the basis of this culture, the crisis was conceived as an “economic” disorder whose solution exceeded the “competence” of traditional actors and which only experts had the means to control. Following this logic, the more the modernizers defined themselves as outsiders to the local realities and specific interests, the more they appeared capable of intervening in it as agents of a major transformation. Second, the two countries were undergoing profound and persistent—although of course very different—crises. In Argentina, the crisis of the balance of payments, social conflicts, and the rise in inflation had disorganized the majority of business and financial relationships, disrupting citizens’ daily lives. According to interpretations common at the time, hyperinflation was merely “the expression of the inherent inability of Argentinian society, its actors, and its institutions, to provide itself with viable organization” (Sigal and Kessler 1996–97:38). The USSR, too, having experienced a level of economic growth on a par with Western economies from 1955 to 1965, underwent a dramatic decline in growth and

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53 These authors suggest that we distinguish between “ideological transition” (the cases of Chile and Great Britain) and “pragmatic transition” (the cases of Mexico and France), based on factors such as the extent of inflation and social conflict, the level of support from the economic elite, the background of the reformers, and the degree of international openness.

productivity which perestroika was intended to remedy. A certain improvement between 1966 and 1968 gave way to disarray in finances and production, delegitimizing the Soviet regime. Finally, the budget deficit and consequent reliance on international financial assistance made these two countries particularly vulnerable to the imperatives of the Washington Consensus, leading them toward a particularly rapid and complete process of trade and financial liberalization.

But an analysis of the experiences of radical reform cannot focus solely on studying initial conditions. There were also similarities in how the reforms developed. On the one hand, although the delegation of public decision-making to experts is a common trend in both these countries, accompanying a reinforcement of executive power, the duration of economists' influence, the extent of their inclusion in public space and policy, the conflicts or affinities of their proposals with the vested interests and values in place, the duration and intensity of their influence, and the creativity with which the "outside world" is translated and registered in local institutions were significantly different. On the other hand, the link between economic and political freedom was quickly abandoned in both countries, albeit with differing degrees of authoritarianism. Both in Russia and Argentina, the reforms not only required a strong concentration of power when decisions were made and implemented; they also contributed to a strong concentration of economic and political power and stifled the democratization that had initially accompanied them. However, the shift from political openness to a return of central power seems more profound in Russia (see Françoise Daucé's article in this volume). Finally, the fate of reform programs and the governments that enacted them depended on their ability to overcome the original challenges, to establish a new order, and to build a strong socio-political coalition. From this point of view, Argentina appears, as a country, to have accomplished a more successful transition in the 1990s, regardless of the extent to which the rigidity of the system contributed to the crisis that erupted in 2001.

The crises of 1998 in Russia and 2001 in Argentina have highlighted the limits of liberalization policies and have served to divide the two countries, marking a renewal in the discussion and practices of economic policy. However, even if *laissez-faire* ideology is no longer dominant in the 2000s, it would be wrong to believe that liberal orientations are dead. A relatively strict monetary policy and continued disengagement from social affairs (though some redistributive measures have been put into effect thanks to budget surpluses) are still characteristic of the two countries. Both remain heavily dependent on exports (such as raw materials and agricultural products, but also heavy industry in Russia) compared with international markets, which largely explains their vulnerability to the crisis of globalization. The nationalist rhetoric adopted by the authorities during the post-crisis years cannot really hide these facts. However, it is clear that in Russia as well as in Argentina, the state claims to be significantly more interventionist in economic organization and markets than before.

In terms of initial conditions, development, and crisis, the division between economics and politics turns out to be problematic. Indeed, a history of liberalization cannot simply reproduce the conventional but untenable opposition between

scientific realism and political willpower. Of course, realism was used to justify these radical transformations. But while experts asked for the removal of “political interference” in order to create sterile laboratory conditions in their societies, they ended up profoundly transforming these societies. Hence the need for a comprehensive perspective that conceives of reforms not as an encounter between two separate or complementary spheres, but views political and economic reality as two aspects of the same process, by which the social order is shaped and remains in force. The current global financial crisis, which leads us once more to reconsider these divisions, is an eloquent illustration of the need for such an approach.

*Authorized translation from the French  
by Brendan O’Connell and Sarah Lippincott*

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