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HUNGARIAN ACADEMY OF SCIENCES

MŰHELYTANULMÁNYOK **DISCUSSION PAPERS**

MT–**DP.** 2004/7

# A COMPARATIVE MODEL OF PARTY-STATES: THE STRUCTURAL REASONS BEHIND SIMILARITIES AND DIFFERENCES IN SELF-REPRODUCTION, REFORMS AND TRANSFORMATION

MÁRIA CSANÁDI

Institute of Economics
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# A comparative model of party-states: the structural reasons behind similarities and differences in self-reproduction, reforms and transformation

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# A COMPARATIVE MODEL OF PARTY-STATES: THE STRUCTURAL REASONS BEHIND SIMILARITIES AND DIFFERENCES IN SELF-REPRODUCTION, REFORMS AND TRANSFORMATION

BY MÁRIA CSANÁDI

***Abstract***

*This paper draws up an empirically based comparative analytical model called by its constructor as the Interactive party-state model (IPS). It details the elements, the principles of connection of these elements and the principle of operation of the whole party-state construct. It also defines the specific principles of operation based on the characteristics of the structure, the specific motivations and behavior deriving from those. The model reveals the structural reasons of the differences in power distribution and describes how these structural differences imply different frequency of meeting structural constraints for reproduction, different time-span for recreating cohesion and different means of resource acquisition for self-reproduction, leading to different paths of development and transformation. The IPS model points to the consequences of these different dynamics on the location, pace, sequence of reforms and the regime these reforms occur.*

***Key words****: party-states, comparative model, transformation, soft budget constraints, reforms, decentralization, disintegration*

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CSANÁDI MÁRIA

# A PÁRTÁLLAMOK ÖSSZEHASONLÍTÓ MODELLJE: AZ ÚJRATERMELŐDÉS, A REFORMOK ÉS ÁTALAKULÁSOK HASONLÓSÁGAINAK ÉS ELTÉRÉSEINEK HATALMI SZERKEZETI HÁTTERE

## *Összefoglalás*

*Vajon mi a pártállamok működésének és változásának politikai–gazdasági–társadalmi logikája? Hogyan magyarázhatjuk a hasonlóságokat és az eltéréseket? Mitől omlanak össze egyes pártállamok, miközben mások életben maradnak? Miért van az, hogy egyes pártállamok átalakulását gazdasági válság másokét gazdasági fellendülés kíséri? A következőkben egy összehasonlító elméleti modellt vezetünk be, amely elméleti válaszokat kínál az előbbi kérdésekre, és egyben analitikus eszközül szolgál a pártállamok működésének és átalakulásának további összehasonlító empirikus elemzéséhez. A modell egy olyan sajátos hatalmi szerkezetet mutat be, amely a párt, az állami és a gazdaság egyedi döntéshozóinak kölcsönkapcsolatából alakul ki, s amely meghatározza szerkezeti ösztönzőik és magatartásuk politikai racionalitását, és ez által újratermelődésük dinamikáját. A modell rámutat azokra a szerkezeti és dinamikai csapdákra, amelyek meghatározzák az újratermelődés során kialakuló önpusztítás tényezőit. A modell három fő hatalmi szerkezeti mintázatot határoz meg, amely az önreprodukció eltérő módjainak és eszközeinek szerkezeti és dinamikai okait nyújtja, amelyek a bomlás, összeomlás és átalakulás eltérő forgatókönyveihez vezetnek.*

## INTRODUCTION

What is the political-economic-social logic of the operation and change of party-state systems? How can we explain their similarities and differences? What is the reason of the differences in their transformation? Why some collapse and others don't? Why some transform accompanied by economic crisis while others by economic growth? We introduce here a comparative analytical model that offers theoretical answers to those questions and serves as an empirical tool for further comparative analysis of the operation and transformation of party-states. The model reveals a specific power structure that evolves from the interrelationship between individual party- state- and economic actors, defining the political rationality of their motivations and behavior and thereby the dynamics of self-reproduction. The model points to the main structural and dynamic traps that determine the factors of self-destruction during self-reproduction. The model defines three basic patterns of power distribution that provide the structural and dynamic reasons of the different ways and instruments of self-reproduction leading to the different scenarios of disintegration, collapse and transformation.

## THE DEVELOPMENT OF THE MODEL

The Interactive Party-state (IPS) model is an inductively built dynamic construct that was based on more than twenty-eight years of empirical research on economic policy decisions and their institutional consequences in Hungary. The main goal of the empirical research was to reveal and to map up the structural background of the institutionalized interdependencies and interest promotion possibilities between party- state- and economic decision-makers. The survey of the interactivity among actors was a central criterion to this approach. The interactivity meant the inner workings of the party-state and the mutual impact of individual and institutional interests and behavior defined by a characteristic structural setting. The empirical studies overarched economic policy processes both before and after the collapse of the Hungarian party-state[1].

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[1] Some of the works resulting from the empirical surveys are the following: Csanádiné Demeter Mária: A vállalatnagyság, a jövedelmezőség és a preferenciák néhány összefüggése [Some Relationship Between Enterprise Size, Profitability and Preferences]. *Pénzügyi Szemle,* XXIII.:2 (February 1979): 105–121; Mária Csanádi: *A differenciált erőforráselosztás és a támogatások újratermelődésének néhány összefüggése (Selective Resource Distribution and Some Aspects of the Regeneration*

As a second stage, the inductively developed theoretical results were *extended* to the structure and operation of the Soviet- and East-European party-states, thereby revealing the *general traits* of the party-state model (Csanádi, 1997*b*)[2]. My main purpose this time was to point to the existence of the same structural and behavioral characteristics and cast light on the structural reasons of the differences. This "maneuver" was made possible by abundant and excellent analytical sources[3]. These field studies analyzed the

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*of Subsidies*). Budapest, Pénzügykutatási Intézet [Institute of Financial Research], 6, (1980); Maria Csanádi: *Függőség, konszenzus és szelekció [Dependence, Consensus and Selectiong.* Budapest, Pénzügykutatási Intézet [Institute of Financial Research], 3, (1984); Maria Csanádi: *Döntések kényszerpályán: az Ipari Minisztérium kialakítása és működésének első éve [Decisions on Fixed Path: The Formation of the Ministry of Industry and Its First Year of Operation]*. Unpublished manuscript, Institute of Financial Research (Budapest, 1985*a*); Maria Csanádi: *Új vállalatirányítási formák kialakításának folyamata* [*The Process of Introducing new enterprise management forms*], manuscript, (Budapest: Institute of Financial Research, 1985*b*); Maria Csanádi: Network Tension. The Relationships between Party and State decisions. *Heti Világgazdaság* (weekly), X.:37 (August 27, 1988*a*): 4–6; Maria Csanádi: Farewell Symphony. *The New Hungarian Quarterly*, 118 (l988*b*): 53–57; Maria Csanádi: A pártállamrendszer szerkezete, kohéziója és szétesése Magyarország példáján [The Structure, Cohesion and Disintegration of Party-states: the Hungarian example]. *Gazdaság,* 23:4 (1989): 5–36; Maria Csanádi: Beyond the image: The case of Hungary. *Social Research*, 57:2 (1990): 321–346; Maria Csanádi: The diary of decline: The case study of the disintegration of the Party in one district in Hungary. *Soviet Studies*, 43:6 (1991): 1085–1100; Maria Csanádi and Andras Lőrincz: Neural Network Formalization of the Hungarian Party-state System. *Behavioral Science*, 37:2 (1992): 81–108; Maria Csanádi and Erzsébet Páczi: *A privatizáció környezetvédelmi vonatkozásai* [Environmental Connotations of the Privatization] Budapest: Center for Environmental Studies (1996); Maria Csanádi: The Legacies of Party-states for the Transformation, *Communist Economies, Economic Transformation* 9:1 (1997*a*): 61–85; Maria Csanádi: Environmental Behaviour of Entrepreneurs in the Privatization Process. *Társadalmi Szemle*, 53:2 (1998): 3–22; Maria Csanádi: *Guarantees for Environmental Protection within Privatisation.* In: Bertalan Diczházi, György Csáki, Ákos Macher (eds.): *Privatisation in Hungary I.* Account for Talent Series of the State Privatisation and State Holding Company, (Budapest, 1999*a*), 225–239; Maria Csanádi and Ruth Greenspan Bell: Environmental Liability in Transition: A Look at the Record in Hungary. *Resources for the Future*, 134 (Winter 1999*b*): 10–13.

[2] Maria Csanádi, *Party-states and their Legacies in Post-communist Transformation*, (Cheltenham, UK, Northampton, Ma, US: Edward Elgar, 1997*b*).

[3] For example, Valerie Bunce: The Political Economy of the Breznev Era: Decline of a Nation-state. *British Journal of Sociology*, 13 (January 1983): 129–158; Valerie Bunce: The Empire Strikes Back: The Evolution of the Eastern Block from Soviet Asset to a Soviet Liability. *International Organization*, 39:1 (Winter, 1985): 1–46;

then Eastern Bloc and its individual countries from different perspectives, at different levels and periods.

In the third step – tracing similarities and differences – the theory evolved into a *dynamic model* that postulated a general character for the structure and operation of party-states along different dimensions (time, space, aggregation and condition) and identified the structural reasons behind the differences among them[4]. These theoretical assumptions were later empirically backed by several comparative studies on the evolution, collapse and transformation of the Eastern Bloc, the Soviet Union, Yugoslavia and Czechoslovakia[5].

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Valerie Bunce: Decline of a Regional Hegemon: The Gorbachov Regime and Reform in Eastern Europe. *East European Politics and Society*, 3:2 (Spring 1989): 235–267; Sharon L. Wolchik: Prospects for Political Change in Czechoslovakia (Paper prepared for presentation at the meeting of the Midwest Political Science Associaton, Chicago, 14 April, 1988); Sharon L. Wolchik: Czechoslovakia's Velvet Revolution. *Current History*, 89: 551 (1990): 413–416; Ellen Comisso: Market failures and market socialism: Economic problems of the transition. In: *Eastern European Politics and Societies*, 2:3 (1988): 433–465; Merle Fainsod: *Smolensk under Soviet rule* (Cambridge, MA.: Harvard University Press, 1958); Katherine Brown: Khabarovsk: Resurrecting the Nomenklatura. Russia at the Grass Roots. *Radio Free Europe*, *RL, Research Report*, 1992): 26–32; Gregory Grossman: 'The party as manager and entrepreneur, from entrepreneurship in Imperial Russia and the Soviet Union. In: G. Guroff and F.G. Carstensen (eds.) Princeton, New Jersey: Princeton Univ. Press, 1983; Jerry Hough: *The Soviet prefects*. Cambridge MA: Harvard University Press, 1969; Hough, Jerry and Merle Fainsod: *How the Soviet Union is governed?* Cambridge MA: Harvard University Press, 1979; Pacepa, I. M. (ed.): *Vörös horizontok: Egy román kémfőnök vallomásai [Red Horizons: Confessions of a Spy Chief]* (I.H. Printing Enterprise, 198); Leonard Schapiro: *The Communist Party of the Soviet Union* (New York: Vintage Books, 1970); Jacek Tarkowski: Endowment of nomenklatura, of apparatchiks turned into entrepreneurchiks, from communist ranks to capitalist riches. *Innovation*, 14:1, (Vienna, 1990); Michael Voslensky: *Nomenklatura: The Soviet ruling class - an insider's report* (New York: Doubleday and Co, 1984); Ilia Zemtsov: *The Private Life of the Soviet Elite* (New York: Craine Russac 1985).

[4] Csanádi: "The Legacies," and Csanádi, *Party-states*,

[5] Blagojevic, Marina: *Institutions in Serbia: From Collapse to What?* In: *Institution Building in the New Democracies. Studies in Post-Post-Communism.* Ed.: Hans Georg Heinrich, Collegium Budapest, Institute for Advanced Study, Workshop Series, 1999), 43–85; Bunce, Valerie: *Subversive Institutions The design and the destruction of socialism and the state* (Cambridge: Cambridge University Press, 1999); Steven Solnick: The Breakdown of Hierarchies in the Soviet Union and China. A Neo-institutional Perspective. *World Politics* 48 (January 1996): 209–238; Wu Yu-Shan: *Comparative Economic Transformations: Mainland China, Hungary, the SU and Taiwan* (Stanford: Stanford Univ. Press, 1994); Andrew Walder (ed.):

As a fourth step, the model was *further extended* to the *Chinese party-state* structure and transformation. The inclusion of the Chinese structure provided the chance to define *three characteristically different patterns of power distribution* within the model. These patterns, backed by the general structural and dynamic properties of the model give rise to different characteristics of self-reproduction and paths of development and transformation.

This detailed description of these patterns made it possible to nest the concept of soft budget constraints into power relations, and *extend* its operation in time, space and to different aggregation levels and different conditions of the structure and define its selective nature according to power relations. By nesting it into the context of power relations we could redefine the concept as selectively soft reproduction constraints. The redefined term developed into the crucial factor of self-reproduction, disintegration and transformation in party-states. The extension of the model and the description of the structure and dynamics of the different patterns made it possible to define the place, reason of emergence and function of reforms nested in power relations and their impact on the reproduction and transformation of the party-state system. This definition provided the chance to confront the concept of reforms nested in power relations with the reform-approach of the comparative literature. The paper will shortly deal with all these issues.

## THE STRUCTURE AND DYNAMICS OF THE IPS MODEL

The IPS model postulates a self-similar[6] character for the structure and operation of party-states along different dimensions (time, space, different aggregation and condition of the structure). It also identifies the structural reasons behind the differences among party-states[7]. *Figure 1* schematically shows the elements and structural properties of a party-state network besides the usual rules of hierarchies within the party and the state. The *distinctiveness* of a party-state structure evolves through the *direct connection* between party and state and the party and the state-owned economy.

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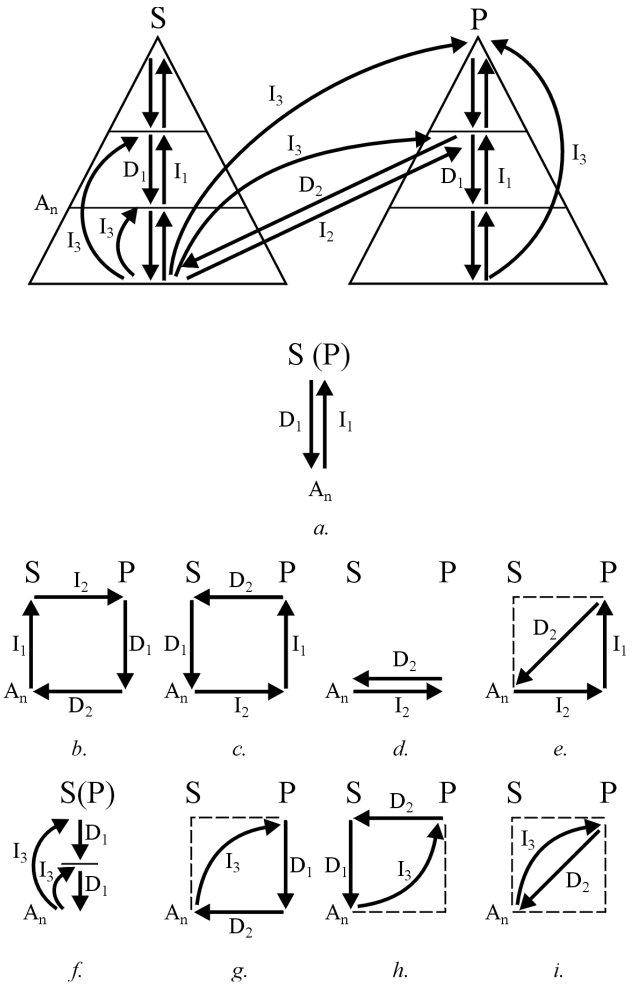
*The Waning of the Communist State: Economic Origins of Political Decline in China and Hungary* (California: University of California Press, 1995)

[6] Self-similarity (fractal character) in the nature was described by B. B.Mandelbrot: *The Fractal Geometry of Nature* (San Francisco: Freeman and Co, 1983). The self-similarity of party-states and that of within them was first defined in Csanádi and Lőrincz, "Neural Network," 81–108.

[7] Csanádi, *Party-states*, 26.




*Key:*

| | |
|---|---|
| S | State (non-party) hierarchy |
| P | Party hierarchy |
| $A_n$ | Decision-makers (actors) at the $n^{th}$ level of the structure |
| $D_1$ | Direction of intra-hierarchy dependence |
| $D_2$ | Direction of cross-hierarchy dependence |
| $I_1$ | Path of intra-hierarchy interest promotion |
| $I_2$ | Path of cross-hierarchy interest promotion |
| $I_3$ | Direction of feedbacks |

*Figure 1* **Power structure of the party-state system and the perspective of a decision maker (actor $A_n$) on the possible paths of interest promotion (from 'a' to 'i'.)**

Direct connections arise via the power instruments of the party[8]. We call these instruments as inter-linking dependency lines[9] ($D_2$). These inter-linking lines *penetrate* non-party institutions and directly influence decisions by overlapping politically important positional-, organizational-, and activity structure and individual behavior. These specifics render the political nature of dependencies ($D_2$) and interest promotion possibilities ($I_2$) for those connected to these lines. Therefore, inter-linking lines also produce structurally built-in inequalities among those connected to these lines and those lacking this connection. As a consequence of direct connections through inter-linking lines, all economic decisions will have direct political impact and all political decisions will have direct economic impact.

Inequalities further increase through the deeper integration of strategic[10] actors into the structure. These relatively few, by meeting priority criteria of politically rational concerns, are able to short cut the decision-making process within and across party and state hierarchies at any level. We call these shortcuts as structural feedback ($I_3$)[11], that forms the loop through $D_1$ or $D_2$ lines. Through feedback, selected actors are able to directly promote their interest and resist to disadvantageous decisions by encountering decision-makers whom otherwise, considering their formal position in the hierarchy, would never meet. Therefore, with feedback ($I_3$) another

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[8] Not only state owned economy is directly connected to the party. The same direct connection is true for other sub-spheres and levels of the society: culture, politics, education, healthcare, civil society, social movements, mass movements, executive legal and judicial decisions, procurator, the police apparatus, etc. For the sake of simplicity these sub-spheres are "condensed" in the concept of the non-party – state – hierarchy.

[9] The inter-linking lines infiltrating institutional framework of non-party institutions are the following: the nomenklatura system overlapping decisions through position structure in non-party organizations, the subject-matter responsibility system overlapping decisions through activity structure, the instructor system, overlapping decisions through the organization structure and the party membership, overlapping individuals through party discipline (Csanádi, *Party-states*; and Csanádi, *A model*,).

[10] I call as strategic those actors whose activity and behavior are crucial from the point of view of political and economic stability, for example, concerning internal supply, the fulfillment of Soviet export contingencies, the size of manpower, potential for causing political tensions, and so on.

[11] For example it may occur within the hierarchies: if an enterprise manager is invited to a ministerial session, or a local party secretary becomes member of the Central Committee of the Party (CC), or across hierarchies: if an enterprise manager or local government leader becomes a member of the CC.

structurally built in inequality will emerge[12]. The result of the structurally built in unequal dependence and interest promoting and resisting possibilities – both due to ($I_2$) and ($I_3$) – is that bargaining capacities and formally equal positions of actors in the hierarchy may radically differ. Bargaining capacities are *selective,* and this selectivity is based on the politically rational criteria of structurally built in inequalities. We shall call this complex interrelation with its built in inequalities in dependence and interest promotion as the *structure of power* at the level of individual decision-makers.

Two *main principles of connection* of the above elements forge the nature of this structure: inter-linking lines, as power instruments of the party may origin only in the party hierarchy, while cross-hierarchy feedback using interlinking lines may origin only in the state hierarchy. These characteristics furnish the unique institutional interactivity of politics and other spheres at the level of individual decision-makers and reveal the mode of inter-penetration of different sub-spheres (party and state, state and society, politics and economics).

The above structural characteristics provide the background of the *operating principles* of party-states: since all decision-makers handle dependency lines within their hierarchies ($D_1$), and only party decision-makers handle dependency lines inter-linking all others ($D_2$), both *dependencies and interest promotion* are *politically monopolized*. This fact may arise indirectly, interlinking the resource monopolizing state, and directly, interlinking the state owned economy. It is for the same structural specifics of interlinking dependency threads in the power structure that *resource extraction and distribution* are politically monopolized.

The structural background and the operating principles lead to a *specific dynamics,* based on the fact that in this politically monopolized structure actors have a dual position: they are simultaneously *holding, and embraced* by dependency lines. Consequently, they have the might and necessity to intervene as monopolistic holders of these lines, while as captured by those, are simultaneously exposed to them and motivated in keeping and multiplying them for interest promotion. Thereby, the structural context merges into *one single entity* those decision-makers that are generally taken apart as two separate parties – distributors and

[12] See about structural feedback in detail in Csanádi *Party-states*, 28–37.

pleaders[13]. The above specifics of the structural context result in the complexity of *bargaining capacities*. Complexity is due to the joint *resource attracting, extracting, distributing and resisting* capacities of single actors within the net. These structural circumstances motivate actors both to forward politically rational expectations and to adapt to them, thereby defining their constraints. If they would not intervene or would not do their best to plead and adapt, they would voluntarily give up their bargaining position in the power structure. In sum, structural motivators, that is, the ability and compulsion, the dependency and interests are *strongly tied to each other*. They guarantee within the whole structure the *political rationality of economic behavior* on the part of the decision-makers during intervention, selection and extraction, allocation, resistance and interest promotion. It is the structural inequalities based on political rationality that allow for the *differences* in resource attracting, extracting, distribution and resisting capacities of the actors within the net. The balance of these unequal capacities nested in power relations will result in *selectively soft/or hard* constraints for the reproduction of the status-quo.

The structural motivators and unequal bargaining capacities induce a revolving mechanism: the actors as captured by dependency lines are directed toward the dependency lines by the fact that interest promotion has no other avenue than the use of the dependency threads directly ($I_1$ through $D_1$ and $I_2$ through $D_2$) or indirectly through $I_3$. The drive for feedback ($I_3$) is constant, in order to ensure chances for advantageous bargaining and to meet politically rational selection criteria of strategic resource distribution. However, in order to meet these criteria, one has to become strategically important, which requires growth; the necessity for growth forces the pleaders to constantly rely upon the dependency threads for resources, and adapt to expectations rallied through those. For decision-makers as holders of dependency threads, in order to recreate the material basis for practicing power and the maintenance of the practice of selective redistribution – in an attempt to satisfy this constant hunt for resources – it is necessary to continuously intervene and siphon-away resources and selectively allocate. This once again drives the actors as captured by dependency threads to make use of these lines that in turn activate actors as holders of the same.

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[13] Janos Kornai *The Socialist System: the Political Economy of Communism* Princeton, New Jersey: Princeton University Press, 1992; János Kornai, Eric Maskin and Gerald Roland, "Understanding the Soft Budget Constraint," *Journal of Economic Literature* 41 (4), (2003) 1137–1187. http://www.sss.ias.edu/papers.

Consequently, it is the structural-motivational background of the *self-reproducing mechanism* that causes the continuous scramble for both the siphoning-away of resources, the intervention in decision-making, and the striving for privileges and resources and, consequently, for growth, *including* the hunger for investment and for manpower, and the hoarding of other inputs. The same structural background of operating principles cause the recurring political concerns leading to specific selectivity in the distribution of resources, favours and resource extraction. Therefore, these behavior-patterns are *structure conforming.* These motivations represent the driving force for the *repetitive activity* within the network and, through this, the *cohesive power and reproduction* of the politically monopolized structure.

Structural characteristics involve the *structural traps giving ground to the dynamic ones* in party-state systems: traps emerge from the direct links between party and state and state-owned economy based on political rationality. This brings about the politically monopolized interest promotion and dependencies, political rationality of economic behavior, the politically rational criteria for selection in resource extraction and distribution, the evolution of forced paths in the redistribution based on the politically rational criteria and built in selective bargaining capacities. Structural and dynamic traps evolving from it forge the explanation of the *lack of economic efficiency constraints* in the reproduction of the party-state system.

Elements, principles of connection of these elements, and principles of operation, the double-sided position of actors and the subsequent motivations and behavior have a *self-similar nature*. This self-similarity of structure and dynamics will prevail in time, as well as in space in different aggregations and conditions of the structure. These factors allow us to define the term “self-similar unit” within the context of the net. For analytical simplicity, let us call *self-similar unit* any one of the above complex structural assemblages at any level of aggregation at any time and any condition of the given structure. We shall call "sub-units" those located within the lower level aggregation and "supra-unit" the higher level aggregation where the unit is one of the sub-units. As a consequence of the general (self-similar) properties, it is only a question of the focus of analysis and level of aggregation whether a unit is analyzed as a sub-unit, unit, or supra-unit. One unit contains sub-units and it may be generally integrated in a larger aggregation with supra-units over it. However, no matter the level of aggregation, the power structure remains based on the interactivity of individual actors.

Based on this self-similarity, the IPS model suggests that the party-state structures – be they country level units, or different level aggregations at different times and state of condition – are comparable. This comparability will hold, despite extreme differences in the size, geopolitical location, cultural specifics, historical traditions, or state of development of the society in which socialism was formed. It will remain self-similar in the above context, despite differences in the historical conditions and developmental stage of the country when party-states were formed, in the developmental stage of these party-states when Stalinism was revised, or in the classical or reform-socialist stage and in the actual international context.

Differences among party-states emerge *within* the self-similar properties due to the different depth the hierarchical lines reach (the strictness of the hierarchies); the distribution of the origin of inter-linking threads in the levels of the party hierarchy ($D_2$) and their density, extent and depth reaching out in non-party hierarchies; the locus of origin of acquired feedbacks ($I_3$), their level of arrival in the party or state hierarchy, their density and their level of accumulation (concentrated or spread) at specific groups; and the differences in the distribution of resource extraction and allocation capacities among the administrative levels. The combination of these differences will define the *variations in the distribution of power* in party-states on the level of individual interactions (Csanádi, 1997*b*).

## THE DYNAMICS OF DIFFERENT DISTRIBUTIONS OF POWER: BUDGET CONSTRAINTS NESTED IN POWER RELATIONS

Variations in the distribution of power will define variations in extracting, allocating, attracting and resisting capacity, and thereby the variations in the distribution of hard- and soft budget constraint. How do these variations in turn, influence behavior within a self-similar unit? In the following pages we shall nest budget constraints in the structural and dynamic context of the party-state network.

(a) At one extreme, let us suppose that the unit is dependent exclusively on allocation, that is, its extracting capacity is zero. It may or may not further allocate to its sub-units the resources it had attracted, according to the decentralization of decision-making over allocation. This means that factors that increase the unit's capacity to attract resources become crucial. In this case, no unit will have any other choice but to "channel in" and strive for

resources from "above"[14]. Success depends on the extent of the unit's resource attracting capacity from the higher-level aggregation.

*The larger the unit's capacity to attract, the softer the unit's budget constraint.* The unit will do its utmost to acquire or maintain the properties that attract resources (e.g. growth by investment, takeover and accumulation of feedbacks) and will strive for the decentralization of the inter-linking threads and hold to its jurisdiction. Lacking extracting capacity, it will strive to increase its own size, while that of its sub-units will become indirectly also important. The importance will emerge from the point of view of enlarging its economic potential to enhance the subordinated unit's, and thereby its own bargaining capacity. This may be achieved by supervising, developing or acquiring sub-units that are potentially capable of undermining the stability of the unit as a whole or that of the higher level aggregations[15]. This might be one reason why these units strive to increase the economic potential of state owned enterprises (SOEs) under their jurisdiction or to expand their jurisdiction over larger SOEs, subordinated to the higher level aggregation at their location[16].

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[14] In case of the final aggregation, if no extraction is possible in the given power structure, and there is no chance to redistribute power, "open door" policy will be declared in order to attract further resources.

[15] The larger were the enterprises that had their headquarters at the locality, the larger the phantom force (connection and political capital) – and through this, the bargaining capacity – of the regional economic policy leadership.

[16] This may have been one of the reasons in Hungary why local party organizations strove for the allocation of headquarters of large enterprises or new centrally planned investments under their nomenklatura responsibility (Csanádi, *Party-states*). Similar motivations must have driven Chinese provinces and lower level governments in the 1980s to lobbying for the decentralization of SOEs that pertained to higher level administration (Laixang Sun: Emergence of Unorthodox Ownership and Governance Structures in East Asia. An Alternative Transition Path. Research for Action 38 UNU World Institute for Development Economics Research (UNU/WIDER) 1997, 10, referring to Lin, Justin, Y., Cai Fang and Li Zou: *Why China's Economic Reforms have been Successful? Implications for Other Reforming Economies* China Centre for Economic Research. Working Papers No. E1995002 Beijing, Peking University (Beijing, 1995); Barry Naughton: *Growing Out of the Plan. Chinese economic Reform, 1978–1993*. (Cambridge: Cambridge University Press, 1996); Andrew G. Walder: Local governments as industrial firms: and Organizational Analysis of China's Transitional Economy. *AJS*, 101 (1995): 263–301; Andrew G. Walder: China's Transitional Economy: Interpreting its Significance. *The China Quarterly*, 143 (1995): 963–979.

The lower the unit's attracting capacity, the harder its budget constraint. The extent of the attraction capacity of the unit may tend to zero. This occurs when self-similar units do not meet selection criteria of allocation[17]. With harder budget constraint from above, and no possibility for extraction from below, survival efforts will force units to "channel in" and compensate their lack of attracting capacity by joining, or indirectly profiting from those that do have a bargaining capacity[18]. Whether budget constraints are hardening or softening, if the attraction of resources is the unique opportunity within the unit, actors will not be interested in quitting the net or the organization they are located[19].

(b) The opposite extreme is when discretion over extraction and distribution is given while *no resources are allocated from above***.** In this case**,** budget

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[17] For example, the inefficient enterprises in Hungary were selectively closed down during the 1970s and bailouts were much more frequent in larger than smaller SOEs (Csanádi, *Party-states*,115).
In China one can see similar positive connection with respect to bargaining capacity and size after 1984, or more frequent bailouts of state owned enterprises than township and village enterprises (TVEs), and the selective bail-out of regions according to size and political prestige (Shu Y. Ma: The Chinese Route to Privatization: The evolution of the Shareholding System Option. *Asian Survey,* XXXVIII: 4 (April 1998): 379–398, 393; Liang Zou and Laixang Sun: Interest rate policy and Incentives of State-owned Enterprises in the Transitional China. *Journal of Comparative Economics,* 23:3 (December 1996): 292–318; Zou and Sun, 1998**,** referred by Enrico C. Perotti, Laixang Sun, Liang Zou: State Owned versus Township and Village Enterprises in China. *Comparative Economic Studies* XLI.:2-3 (Summer /Fall, 1999): 151–179; E. D. Wildasin, "Externalities and Bailouts: Hard and Soft Budget constraints in Intergovernmental Fiscal Relations. Mimeo, Vanderbilt University 1997cited by Qian, Yingyi and G. Roland: Federalism and Soft Budget Constraint. *The American Economic Review*, 88: 5 (1998): 1143–1162, 1444.

[18] This was experienced in Hungary in the 1970s (Csanádi, *Party-states*) in the case of smaller SOEs that sub-contracted the larger ones in order to obtain scarce raw materials and spare-parts acquired by those as a consequence of their better bargaining position. The same motives may have driven TVEs in the early 1980s to become subcontractors of large SOEs, when 60-80 percent of TVE output was produced by firms subcontracting with large urban SOEs in suburban areas of Beijing, Tianjin and Shanghai. (Perotti, Sun and Zou, "State owned versus," 151–179).

[19] For example, despite Hungary having a law since the middle of the 1980s allowing enterprise subsidiaries to detach from the mother enterprise very few such actions took place until the end of the 1980s when detachments begun to mushroom. However, from the end of the 1980s until mid 1990s, the 50 largest enterprises in the processing industry disintegrated into more than 690 units (Éva Voszka, *A dinoszauruszok esélyei (The Chances of the Dinosaurs)*, (Budapest: Pénzügykutató and Perfect Publisher, 1997).

constraints will depend solely on the unit's capacity to extract resources from within the field subordinated to it. Success of extraction depends on the extent of the resisting capacity of its sub-units. The lower the resisting capacity, the softer will be the unit's budget constraint from below. The higher the resisting capacity, the harder will be the unit's budget constraint from below. In this latter case, the interest of enhancing the growth of economic sub-units within the unit's confines is constrained by the interest of increasing extracting capacity within the net. These interests collide with the drive of subordinated units is to increase bargaining capacity for better resistance to extraction. Therefore, the unit strives for further centralization of the inter-linking threads within its realms and for less fed-back sub-units with less bargaining (resisting) capacity[20], while subordinated units strive for growth.

As a consequence of the self-similar character and the specificity of the distribution of power within the units or its different level aggregations, one unit, as a sub-unit, may be part of one kind of power distribution, while containing within itself another kind of power distribution. Therefore, the unit's situation, motives and behavior directed upwards, might be dramatically different from those directed downwards. The *combination* of the different or same extent of attracting (resisting) over extracting (allocating) capacity is produced by the joint impact of different or similar patterns of power distribution concerning the unit at upper levels and within its realms.

How can combined budget constraint be defined for an interacting self-similar unit? Taking the self-similar character, the internal variations of power distribution and interactions into consideration a *new concept* of

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[20] This might have been one of the reasons why in Hungary by mid 1980s – opposite to the previous period – efforts to break up (instead of further developing) large enterprises were the main political issue. That was the period when resources from outside decreased radically, since Western loans and mounting interest rates were to be repaid and extraction capacity of the system was decreasing rapidly. Restructuring though had limited results because large enterprises with accumulated feedbacks could resist (Éva Voszka, *Reform és átszervezés a nyolcvanas években [Reform and Reorganization in the 1980s]* (Budapest: Közgazdasági és Jogi Könyvkiadó, 1988).). In the Chinese case, this might have been the reason why Chinese SOEs subordinated to local governments enabled with extracting capacity did not grow to such an extent as in the Eastern European countries, where extraction capacity was allocated to the central authorities (Yasheng Huang: Web of Interest and Patterns of Behavior of Chinese Local Economic Bureaucracies and Enterprises during Reforms. *China Quarterly*, 123 (September 1990): 431–458.

system- and structure-specific budget constraint is introduced within the IPS model.

On the one hand, the combination of attracting and resisting capacities of a self-similar unit will define its *bottom-up balance of resources***.** On the other hand, the combination of the unit's extraction and redistribution capacity will furnish its top-down interactions and define its *top-down balance of resources*. The combined (IPS) budget constraints of a unit will define the unit's constraints during reproduction, since reproduction will be shaped by the combination of its top-down and bottom-up interactions. Interactions themselves are shaped by the distribution of power bottom up and top-down. The distribution of *s*electively soft/hard budget constraints will adapt to the structural varieties in the distribution of power both top-down and bottom-up. *Therefore, the combined IPS budget constraints will be structure-specific, in other words, selective.*

Consequently, selectivity of hard and soft reproduction constraints of a unit *implies* the existence of shortage in case of hard reproduction constraint and the lack of shortage in case of soft reproduction constraints during self-reproduction. As a consequence, *shortage is also selective*, according to power relations. Selectively hardening reproduction constraints and selectively growing shortage evolve under the same conditions if we suppose that shortage involves all production factors (products, manpower and financial inputs). Occasional or persistent hardening of reproduction constraints (shortage) on national or lower level does not exclude prevailing selective shortage within any unit. To cease shortage and to soften reproduction constraints within the given power structure implies the same motivations and behavior.

Since the combined IPS budget constraints – placed within the context of the power network – evolves during the reproduction process, and contributes to the constraint of self-reproduction we shall call it as *reproduction constraints.* The combination of different or similar extent of the attraction, resistance, extraction and allocation capacities will provide the *extent of soft/hard reproduction constraint* of the unit. Since soft and hard reproduction constraints adapt to the varieties of the distribution of power, reproduction constraints in the model are *structure-specific*. Whether hard or soft, reproduction constraints in party-states will be defined in the context of the power distribution within the net. Therefore, reproduction constraint is not an institutional-economic, but a *systemic-structural term.*

## THE DYNAMICS OF REPRODUCTION CONSTRAINTS WITHIN THE STRUCTURE

As a result of the absence of economic efficiency controls due to the structural and dynamic traps of the system, *reproduction constraints are unstable (tending)* in the direction of the inherent behavior and interests motivated by political rationality forming forced paths. Therefore, from time to time **(**either transitory or long-term**),** the extraction and/or attraction of resources are no longer viable within the framework of the given power structure, either as a consequence of resistance, or lack of extractable resources. In other words, *the* characteristics of dynamics of reproduction *occasionally lead to structurally hard reproduction constraints and thereby to shortage at unit level.*

When mechanisms of reproduction meet hardening structural constraints, pressures grow to either *change the status quo or leap out of the net* for further resources. To change the status quo (distribution of power) is structurally challenging, to leap out of the net is economically challenging. The environment outside the net – be it within the country[21] or the international framework – surrounds these units or their larger aggregations. In this respect, the power structure built on politically rational criteria meets economic constraints. Let us retain the term "budget constraint" to the relationship of the self-similar unit to its external environment that may be soft or hard. In this respect, there is a *strict connection between reproduction constraints within the net and the budget constraints of the unit* in relationship to its external conditions (domestic and international market).

When reproduction constraints of a unit are soft, that is, there are no structural obstacles to reproduction, hard or soft budget constraints, external to the net do not play a role. In case reproduction constraints within the net harden but resources from outside the net are available, in this case budget constraints of the unit are soft[22]. Consequently, reproduction constraints

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[21] These are those individual fields where the net does not directly reach out, therefore some kind of budget constraints develop, even if distorted as a consequence of the subordinated status compared to that of those within the net and their indirect links to the net. Such fields were for example, the agricultural small holders in Poland from the end of the 1950s, part of the second economy in the 1970s and 1980s in Hungary, private entrepreneurs and agriculture in the 1980s in China.

[22] In case of foreign loans this fortunate situation comes to an end, once loans and interests have to be repaid (concerning Hungary see László Antal: *Fejlődés kitérővel. A magyar gazdaság mechanizmusa a hetvenes években [Development with a Detour. The Hungarian Economic Mechanism in the 1970] 2* (Budapest: PKI Közlemények,

soften and motivations to change status quo are limited and so are adaptation pressures. Therefore, resources attracted from outside the net may contribute to avoid structural challenge. It is another case when reproduction constraints within the net harden and chances to attract (or siphon away) resources from outside the net also decrease. This time, the budget constraints of the unit hardens, and motivations intensify to change the status quo within the net and to adapt to domestic and international pressures.

*Adaptive capacity* of the net during reproduction in case of soft and hard budget constraints is dramatically different. As a consequence of the traps built in the structure, in case of soft budget constraints the internal dynamics of the net flexibly "translates" and form-fits (adapts) environmental impacts according to politically rational criteria and forced paths of reproduction. In case of the extensive coincidence of hardening budget constraints and hard reproduction constraints, due to the same traps, cohesion of the net weakens. This change may be transitory, definite or may lead to an irreversible disintegration and collapse of the net instead of transforming it.

When the cohesion weakens, these conditions create the motivation to restore the cohesion of the structure in the same or new distribution of power. To that end*, each combination induces a variety of possible actions according to expectations*. However, each action will result in a *variety of outcomes according to structural constraints.* Actions do not aim directly at having soft reproduction constraints, but to acquire resources in some way or another for self-reproduction. While selectively softening or hardening reproduction constraints will define motivations, the structural conditions in the distribution of power (both top-down and bottom-up) will define and shape the varieties of possible behavior and strategies during reproduction. In other words, the dominant conditions determined by the current bargaining position of a unit bottom up and top down that will force the *kind of adaptation and motives*. Therefore, *motivations are also structure-specific.*

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Pénzügykutatási Intézet,1979); László Antal: Pénzügyi tervezés és szabályozás konfliktusai [*The Conflicts Between Financial Planning and Management*]. *Gazdaság*, 17: 2 (1983): 31–55; László Antal: *Gazdaságirányítási rendszerünk a reform útján [Our Economic Management and Financial Systems on the Path of Reform]* (Budapest: Közgazdasági és Jogi Könyvkiadó, 1985). Moreover, this time will arrive under worse structural conditions, since foreign loans only reinforced those privileged along the fixed paths of redistribution. The resistance to extraction of those so privileged will be stronger, while there are no more resources to attract and distribute.

Both hard and soft reproduction constraints may be present temporarily or for sustained time within the above variations[23]. Do structural specifics influence the length of the period when hardening reproduction constraints evolve? Do they influence the time-span under which cohesion may be restored? We argue that both the frequency of hardening reproduction constraints, the mode and the time-lapse of removing the obstacles to the reproduction mechanism and, thereby, *recreating the cohesion* are *structure-specific*.

The *frequency* of turning soft reproduction constraints into hard also depends on the specifics of the distribution of power within the unit. If resisting capacity within the net is low, the period until hardening constraints are met is longer, if resisting capacity it is high, this period is shorter. These same conditions not only contribute to the frequency of hardening of reproduction constraint, but adversely, to the *time-span necessary to restore cohesion.* The greater the pressuring capacity within the net due to the limited resisting capacity, the shorter the period will be during which hard reproduction constraints and the lack of cohesion prevail.

What kind of instruments serves to restore cohesion? Are these instruments independent of structural specifics? We stress that resisting and attracting capacity within the net also delineates the *possible instruments* that enable to remove obstacles to further resource extraction and distribution and the restoration of the cohesion[24]. Moreover, due to the politically rational motivations and behavior and the lack of efficiency control, these structure-conforming instruments of self-reproduction will prevail despite adverse warnings – increasing tensions, or the loss of cohesion. Therefore, not only reproduction constraints and behavior, but also *instruments of resource extraction and redistribution will be structure-specific*.

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[23] Taking self-similar character into consideration – hard and/or soft reproduction constraints may be present in one time in different aggregations, and at the same level in different spaces. They may be present also in different times on the same or different aggregations. In sum, they may be present sequentially in one unit and simultaneously in different units. Therefore, units on a formally equal level of aggregation or different aggregations, as a consequence of the extent of attracting and extracting capacity, may differ according to their structural constraints. This capacity is determined by the aggregated and individual structural properties.

[24] See the different, structure-conforming instruments in the next chapter of the paper.

## THE MAIN PATTERNS OF REPRODUCTION AND TRANSFORMATION

The development and transformations of party-states may be grouped from the point of view of the reproduction of the system, according to the specifics of the distribution of power and its adequate dynamics *(Table 1)*. Distribution of power includes three major structural factors: (1) the distribution of inter-linking threads, (2) the existence of structural feedbacks from economic field and (3) the distribution of the levels of extraction and allocation of resources.

Three major patterns are given upon the variation of the above elements: (i) Self-exploiting, (ii) Self-disintegrating and (iii) Self-withdrawing. These structural patterns will determine the different ways of self-reproduction and transformation[25]. In more details, patterns of power distribution will be responsible for the capacity within the pattern to resource attraction and resistance to intervention and extraction. These factors will provide the structural constraints and thereby affect the different frequency of hardening reproduction constraint within the pattern. They will also define the structure-conforming instruments for self-reproduction (forced resource extraction and redeployment, resource mobilizing- and resource creating reforms respectively)[26]. Patterns will also contribute to the differences of the paths to transformation of the given systems. Moreover, the specific way of reproduction of the structure has a strong imprint on the characteristics of disintegration, collapse and transformation. Disintegration, collapse and transformation will occur in different sequence and pace, and under different political regime, according to the specifics of the pattern of power distribution. In the sections below we

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[25] Three case-studies demonstrate the theoretical statements on these patterns concerning the origin, development disintegration, collapse and transformation – that of Romania, Hungary and China (Csanádi, *A comparative model,* 123–318.)

[26] The implementation of structure-specific instruments of resource extraction does not mean their sole application in practice. From time-to-time some liberalization is applied in Self-exploiting pattern, resource redeployment is applied as routine reaction to hardening reproduction constraints in Self-disintegrating patterns while both resource-redeployment and resource mobilization is applied in Self-withdrawing pattern. However, in the process of reproduction and transformation the so-called pattern-conforming instruments are the most influential and prevail and become more intensive despite growing tensions, disintegration and withdrawal.

*Table 1:* **Basic patterns of power distribution in party-states and adequate reproductions and transformations**

| PATTERNS OF REPRODUCTIO | SELF-EXPLOITING | SELF-DISINTEGRATING | SELF-WITHDRAWING |
|---|---|---|---|
| **Distribution of power** | **Centralized extraction and redistribution and centralized inter-linking threads with no (scarce) economic feedbacks** | **Centralized extraction and redistribution, centralized (or decentralized) inter-linking threads with economic feedbacks** | **Partially decentralized extraction and redistribution and either centralized or decentralized inter-linking threads with economic feedbacks** |
| **Relationship between units and** | **Faint resisting and attracting capacity of sub-units** | **Selectively strong attracting (resisting) capacity of sub-units** | **Selectively strong resisting (attracting) capacity of sub-units** |
| **Reproduction constraints** | **Reproduction constraint on unit level is RARELY HARD as a consequence of unconstrained extracting capacity** | **REPRODUCTION constraints on unit level become OCCASIONALLY HARD within the net when there are no more resources to extract in the given distribution of power** | **REPRODUCTION constraints (p) on unit level become FREQUENTLY HARD within the net as a consequence of the unit's faint extracting capacity** |
| **Mode of resource acquisition** | **Forced resource redeployment within the net (no reforms), redistribution based on political rationality** | **Drive to mobilize resources to extract within the net (resource mobilizing reforms) while fixed paths of redistribution based on political rationality prevail within the net** | **Drive to create resources to extract outside the net (resource creating reforms), while fixed paths of redistribution based on political rationality prevail within the net** |
| **Economic development** | **Forced economic growth based on political priorities while economically undermining the system** | **Economic recession due to soft budget constraints of those privileged within the net while reform escalation due to growing frequency of hardening budget constraints in the capacity to mobilize further resurces on unit level** | **Economic growth due to hard budget constraints of those outside the net and reform escalation due to persistently hardening budget constraints within the net on unit level** |
| **Condition of the net** | **Remains unharmed** | **Emptying – for the lack of resources; deteriorating capacity to overlap positional, activity and organizational structure, decentralization of inter-linking threads for better local control and to get rid of burdening** | **Relative and absolute shrinking and emptying; deteriorating capacity to overlap of positional, activity and organizational structure, decentralization of inter-linking threads for better local control and** |
| **Sequence of transformation** | **(1) Abrupt collapse (2) Disintegration parallel to Transformation** | **(1) Disintegration (2) mild collapse (3) Transformation** | **(1) Disintegration parallel to Transformation (2) Advancing partial and delayed system collapse** |

shall reveal the specifics of each pattern[27]. It is helpful if we followed the description with an eye on *Figure 1* too.

*The Self-exploiting pattern:* in this pattern, the distribution of power is such that both the extraction and allocation of resources and the net is centralized, and there are weak or few economic feedbacks. The limited feedback means in general weak resisting and attracting capacity within the net. In this case, the whole aggregation has an unconstrained extracting capacity, in other words, its *reproduction constraints are soft*. Softness evolves and persists for extended periods since forced resource redeployment (extraction and reallocation) may be repeated without meaningful resistance.

The fainter the capability of sub-units to resist and influence through the dependency threads and feedbacks, the greater is the capacity of the unit to exert pressure in the given distribution of power. Therefore, no matter the level of aggregation, in these cases resources are extracted through exerting political pressure and/or implementing campaigns for *forceful restructuring of power relations*. Forceful restructuring will result in forced *redeployment of resources or directly that of resourceful targets.*

What do we mean by resource redeployment? These are for example**,** changes in the product-structure, merging of enterprises, amalgamation or disaggregation of agricultural co-operatives in Hungary, in China or Romania[28]. One may also include the reorganization and merger of economic management authorities in Hungary[29], the extraction of the so-called "off budgetary" and "extra budgetary" revenues in China[30].

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[27] The detailed argumentation on why these three patterns may be defined may be found in Csanádi, *A comparative model,* 69-80.

[28] Iván Pető and Sándor Szakács: *A hazai gazdaság négy évtizedének története 1945–1985* [*Four Decades of the History of the Domestic Economy*] (Budapest: Közgazdasági és Jogi Könyvkiadó, 1985); Doak A. Barnett: *Cadres, Bureaucracy and Political Power in Communist China* (New York: Columbia University Press, 1967); William Crowther: *The Political Economy of Romanian Socialism* (New York: Praeger, 1988): 56–58.

[29] Csanádi, *Decisions on Fixed Path*.

[30] Huang, 1996, Wu and Qian, 1999, Lin, C. Z.: Open-Ended Economic Reform in China. In: Victor Nee and David Stark (eds.): *Remaking the Economic Institutions of Socialism. China and Eastern Europe* (Stanford, CA.: Stanford University Press, 1989): 95–136; Andrew Wedeman: Budgets, Extra-budgets and Small Treasuries: illegal moneys and local autonomy in China. *Journal of Contemporary China,* 9:25 (2000): 489–511.

Similarly, we can add as instruments of forced resource redeployment the forced exports for the sake of funding imports in Hungary in late 1970s[31], or forced fund raising, forced capital raising, forced workers' share[32] and forced acquisition of state bonds in China in the 1990s (interview, 2000). By the same token, we can add to the characteristic measures the transfer of enterprise jurisdictions, the forced transfer of manpower, the forced transfer of capital through fixed price scissors between agriculture and industry for industrial investment priority. Likewise, the fixed prices, fixed wages and fixed low price of compulsory state procurement may be added to this group of instruments.

Until the reproduction within the Self-exploiting pattern with the above instruments is unconstrained (soft), it will consider unnecessary to change priorities, to adapt, or to find a different instrument for resource extraction. Economic and human resources will be exploited to their physical limits – as with Romania by the end of the 1980s[33], North Korea still by the early 2000s[34] or China during the Great Leap Forward and the Cultural Revolution[35]. This process of reproduction will conserve the status quo (the controlling and overlapping capacity) of the power network. Therefore, these systems remain stable, despite economically irrational expenditures and exploitation of economic and human resources and increasing social tensions. Consequently, the politically rational way of economic operation with no (or limited) resisting capacity within the net, and no constraints on preferential growth of heavy industry *will undermine the system economically and socially*.

If in this pattern the self-similar motivations of growth and increasing tensions finally harden reproduction constraints, further forced restructuring and resource centralization occurs in order to soften constraints, combined with increased political pressure. Temporary loosening and withholding of forced reproduction occurs if hardening

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[31] Csanádi, *Dependence, consensus,* 1984

[32] Smyth, Russel: Recent Developments in Rural Enterprise Reform in China: Achievements, Problems and Prospects. *Asian Survey*, XXXVIII.:8 (1998): 784–800.

[33] Kathrine Verdery, and Gail Kligman: Romania After Causescu. Post-communist Communism? Eastern Europe in Revolution, (Conference paper. Yale University, November, 1990)

[34] Nicolas Eberstadt: North Korea's Interlocked Economic Crises: Some Indications from "Mirror Statistics. *Asian Survey* XXXVIII.:3 (March 1998): 203–231.

[35] Barnett, 1967; Roderic MacFarquhar: *The Origins of the Cultural Revolution*, I-II Volumes (New York: Columbia University Press 1972, 1983)

reproduction constraints and increased tensions coincide with stabilization necessities as a consequence of externalities, such as leadership change within the unit or similar events and crisis in the larger aggregation[36].

Pattern shift or systemic collapse[37] will occur only when growing tensions and increased pressure meet expanded internal and external political opportunities, and intra-elite conflicts arise as a consequence of such externalities as the (expected) death of the leader and/or collapse of neighboring self-similar units[38]. Therefore, collapse – which means the disappearance of the main connecting and operating principles of the structure and with that, the structural motivations of reproduction – in these cases will be sudden and abrupt. It will be such both as a consequence of lack of prior gradual changes in the network, the depth of economic crisis, the outburst of social revolution and the lack of the prior development of coherent economic social and political forces to take over the collapsed system, and the lack of resources to smoothen the depth of economic crisis. In these cases disintegration of the remaining elements of the system and the transformation will occur in *parallel* fashion, after the systemic collapse. The parallel disintegration and transformation in post-collapse development of the formerly Self-exploiting pattern will cause cumulated uncertainties, deep economic crises, long-lasting period of readjustment, hard adaptation and reluctant compromises.

The second pattern will be called as *Self-disintegrating*: here the distribution of power is such that inter-linking threads are either centralized or decentralized but there are strong economic feedbacks within the net and resource extraction is centralized. This means that the attracting and resisting capacity of fed back units is high within the net in the context of centralized extraction and allocation. In this case however, both strong attracting and resisting capacity hinders the reproduction of the structure through measures of forced resource redeployment. In the terms of the model, the forced resource redeployment efforts *become form-fitted* (applied selectively) to the specifics of power relations. In the given distribution of power, the system will *more frequently* run into hardening reproduction constraints. These circumstances evolve as a consequence of

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[36] See for example Dej's actions in Romania in the mid 1950s, after the death of Stalin and Ceausescu's liberalization drives in mid 1960s, after the death of Dej and the rise of Ceausescu (Csanádi, *A comparative,* 162–169 and 169–177 respectively).

[37] The theoretical and concrete conditions one or the other are detailed in Csanádi: *A comparative,* 85–88 and 158–211.

[38] See Bunce, *Subversive*, 131.

the self-similar properties of motivations and behavior (e.g. hoarding, drive for growth), the selectively soft reproduction constraints of those fed back as opposed to their relatively strong resisting capacities within the net against resource centralization. Due to these factors, the loosening of cohesion lasts longer. The more frequent the hardening reproduction constraints and the longer the period to restore cohesion, the stronger will be the unit's drive to find *other ways* to reveal resources for self-reproduction. We stress that under these conditions *reforms* will emerge in the given distribution of power as the instruments to acquire resources and to recreate the structure's cohesion[39].

Reforms, however, do not comprise free flow of production factors, rather the restructuring of the structural context of production factors. Let us call *resource-mobilizing* reforms those resource-revealing actions that remain within the confines of the net and reveal resources by changing the *context of activity* of economic actors as resource subjects within the net. More concretely, there are measures that decrease the state's role through decreasing individual decision-making drives of the state, and thereby increasing that of the state-owned economic units. Such are, for example, a quasi- world market price system, revenue-sharing constructions, or income-taxation system, enterprise revenue system, or reducing the role of compulsory planning, decentralizing decisions over input, output and commercial partners, discretion over investment, import and export. Resources may be mobilized by *narrowing the circle of selective allocation* (e.g. by narrowing the number of those privileged) or decreasing resource allocation to the same. It will render similar results if the *attracting and resisting capacity of sub-units was decreased***.** For example, by weakening their political capital, when abolishing their potential mediators, the branch (line) ministries, or by depriving these latter of their interest promoting capacities and functions as it occurred in Hungary in 1981. Another way to decrease the political capital is the decentralization of the nomenklatura and appointment rights of enterprise managers to lower – less powerful – levels of the administration. Similar results may be achieved by weakening the bargaining capacity of the sub-units themselves by disconnecting their feedbacks (privileged connections) from higher levels of the party-state structure.

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[39] The detailed description of those conditions when reforms are gaining ground during periods of loss of cohesion due to the coincidence of similar drives (revealing new resources) but different motivations of reformers and conservatives (change and conservation of power respectively) is described in Csanádi: *Party-states,* 174–233.

As a consequence of strong attracting and resisting capacity of those fed back within the net and unchanged selection criteria, mobilized resources will be allocated invariably on the basis of politically rational criteria. Due to structural and dynamic traps, allocation will contribute to the maintenance of fixed paths, to the further strengthening and soft reproduction constraints of selective groups. It will also conserve prior behaviour of those privileged and the hardening reproduction constraints of those out of the privileged circle. Therefore, unchanged allocation priorities do not create new resources while hardening reproduction constraints of non-privileged do not allow the increase of resource extraction. Structural constraints will increase the frequency of hardening reproduction constraints and thereby the escalation of reforms, parallel to the decline of the capacity to mobilize new resources. Moreover, due to the dynamic traps, this decline takes place without the capacity to abandon forced paths of soft reproduction constrains of those privileged[40]. Traps lead to continuous hardening of reproduction constraints on macro level, to steady loosening of cohesion and thereby to the further decentralization drives through the escalation of resource mobilizing reforms[41]. Meanwhile, as a consequence of the decentralizing reforms growing difficulties will arise in maintaining traditional control through inter-linking lines ($D_2$), reaching out to the increasing kind and number of organizations, activities and positions. Moreover, the activity of using the net and advantages of feedback will decrease, since expectations for resource allocation through the net decline, turning the formerly privileged circle from assets to liabilities. The recurring drives for sustaining self-reproduction will gradually disintegrate the net, without creating alternative resources and alternative rationality of behavior, while decreasing cohesion and enhancing economic recession.

When reproduction constraints become *persistently hard* and cohesion persistently decreases since no further resources may be attracted or extracted in the given structure, decentralization of inter-linking threads

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[40] Csanádi: *Party-states*, 229; Edward S. Steinfeld: *Forging Reform in China. The Fate of State Owned Industry* (Cambridge: Cambridge University Press, 1998), xiii-xv, 3, 18–21; Roger H. Gordon and David D. Li: *Government Distributional Concerns and Economic Policy During the Transition from Socialism*. Transition Economics, N. 1662 Discussion paper series, Centre for Economic Policy Research, (London, 1997), 2.

[41] The continuous drive for revealing and exploiting further resources to distribute may be further accelerated by the hardening of reproduction constraints in the context of the higher aggregation (if there is such) or the coincidence of hardening reproduction constraint within the net and hardening budget constraints from outside the net.

accelerate, extracting discretion will be partially decentralized and drives to get rid of burdens increase while efforts to create resources outside the net or attract from above strengthen. The capacity to attract resources from outside the net – in case budget constraints for the unit are soft – will slow down the speed of disintegration, and may conserve the given distribution of power despite the lack of internal resources. In case budget constraints become persistently hard coinciding with persistently hard reproduction constraints from inside, the condition of the structure deteriorates to such extent that cohesion may not be regenerated and system collapse takes place. Disintegration will be *gradual,* first it attains state decisions, inter-linking threads and thereby the party. Collapse will be *smooth* and transformation of state property will *follow* system collapse. Where resource-mobilizing reforms dominate, disintegration, collapse and transformation will be *sequential*.

The third type of pattern will be called *Self-withdrawing.* In this pattern inter-linking threads are either centralized or decentralized, there are strong economic feedbacks from several dimensions of the network, and resource extraction capacity is partially decentralized. Therefore, there is an *increased resisting capacity* to resource extraction within the given power distribution compared to the other two patterns. In these circumstances neither forced resource-redeployment or resource-mobilizing efforts are sufficient for self-reproduction. Therefore, reproduction constraints within the structure become frequently hard. Consequently, resource acquisition drives within the net will be forced to either get rid of allocation burdens by continuously *decentralizing* responsibilities (expenses and targets of allocation), and/or leap out of the net, and/or allowing the increase of the field outside of the net for further resource extraction.

For example, extractable resources are created *by allowing increases in the number of resourceful units outside* the net and enhancing the creation of the institutional conditions for this process. For example, letting the exchange of products produced in the state-owned sphere over-the plan on market prices to increase revenues from outside the net[42]. Enhance the

[42] For example, such action could be traced in China due to the introduction of the so-called dual-track system, in the first half of the 1980s. The dual-track refers to the coexistence of traditional plan and market channels for the allocation of the given good. Dual-track implies the existence of a two-tier pricing system for the goods under that system: a single commodity will have both a (typically low) state-set planned price and a (typically higher) market price. If the plan was fulfilled, the rest

conditions to set up and operate domestic private enterprises, enhance private plot cultivation. Set up conditions and allow the inflow of foreign direct investment also into the net, thereby attracting FDI, creating joint-ventures, transforming SOEs into shareholding enterprises, lifting up barriers to labour mobility, to price setting and product and capital flow.

Let us call resource-creating reforms those measures through which decision-makers *partially or completely "leap" out of the net or let the field outside the net grow* to acquire new resources, or directly attract foreign direct investment (FDI) from outside the net. This process increases the alternative field to the net (alternative behavior, activity, organization, property resources and rationality). By that token, these reforms that increase the field outside the net induce the *relative shrinking of the net*[43].

However, resource-creating reforms will make the *net shrink in absolute terms too***.** This process may occur either *directly,* by deliberately withdrawing inter-linking- and hierarchical lines – for example**,** the withdrawal of the net from below county level through semi-free governor elections on township level in China[44], or winding up state functions and respective organizations[45]. Absolute shrinkage may also occur *indirectly,* when the targets of inter-linking lines and those attached to the hierarchical lines leap out, or disappear though bankruptcy and close-down or privatization of SOEs or winding up of collectives, leaving $D_1$ and $D_2$ lines

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of the produced commodity could be sold at market prices. Through these instruments, enterprises increasingly learned how to operate outside the plan, a market sector evolved through direct sales, increased revenues. (Naughton: *Growing out*, 8; Denglian Jin and Kingsley E. Haynes: Economic Transition at the Edge of Order and Chaos: China's Dualist and Leading Sectoral Approach. *Journal of Economic Issues* XXXI.: 1 (March, 1997): 79-100; Yingyi Qian and Chengang Xu: Why China's Economic Reforms Differ: the M-form Hierarchy and Entry/Expansion of the Non-state Sector. *Economics of Transition* 1:2 (1993): 135–170; Smyth, "Recent Developments".

[43] Naughton calls the relative growth of non-state sector as "growing out of the plan" in McMillan John, and Barry Naughton, "How to Reform a Planned Economy: Lessons from China," *Oxford Review of Economic Policy*, 8 (Spring 1992):130-143.

[44] Hairong Lai, "Development of Competitive Elections since mid 1990s on Township Level in Sichuan Province in China," *China Perspectives*, Hong Kong, 51, (2004):13-27; Shuhfan Ding. *The party-state Relationship in China, 1978-1986*, Dissertation submitted to the Graduate School of the University of Notre Dame, in Partial Fulfillment of the Requirements for the degree of PhD, Department of Government and International Studies, UND, June 1987, 32, fn. 18

[45] Csanádi, Maria and Hairong Lai. "The Transformation of Party-states on Prefecture and County Levels, from the Point if View of the IPS Model" Institute of Economics, Discussion Papers, MT-DP N. 11 (2003).

in limbo. These actions have several consequences: they decrease the number of sub-units attached to the net and in exchange, increase the amount of extracted and redistributable resources available to the remaining sub-units within the net. They may also provide the unit with resourceful entities outside the net.

The other indirect way of the absolute shrinkage is when remaining resources (capital, manpower, expertise) within the net are transferred outside of the net by the *emptying and stripping off the rigid structures*. The reason of this process is the attractiveness of alternative options of resource acquisition outside the net. Options will motivate decision-makers to partially or definitely exit – either individually[46], or as an organization[47]. With exit actors *vacate the rigid structures* and leave burdens within the net[48]. This may take place either by joining the new field, or even pumping revenues outside from within the net (e.g. in the form of daughter enterprises which than found joint ventures with private ones**)**. Both the cutting off of targets from dependency threads, the withdrawal of the net and the transfer of manpower, expertise and capital outside the net will result in either automatic or forceful retreat of the net *in absolute terms***.**

Moreover, because of available alternative resources, the *intensity* of using the net also decreases. The higher the expectations for harder reproduction constraints within the net and the more frequent they are, and the more intensive the competition pressure (hard budget constraints) from outside the net, the higher the drive to decentralize or to leap out of the net. Besides accelerated decentralization, expectations and drives and pressures will also cause the escalation of resource creating reforms. Because of the escalation of the implementation of the above measures, the main building blocks of the system gradually deteriorate *and system transformation takes place:* inter-linking threads are withdrawn, break, left in limbo or empty, state property is sold out or closed down, state bureaucracy shrinks.

As a consequence of the decentralization of targets, means and functions and the relative- and absolute shrinking, loosening and emptying of the net, parallel to the growing alternatives and field outside of it, in this pattern, disintegration will take place *parallel* to transformation. This parallel

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[46] Gordon and Li, *Government distributional,* 1-2 and 23.)

[47] Voszka (1997), Qian, "Enterprise Reform in China: Agency problems and Political Control," *Economics of Transition,* 4:2 (1996): 427-47: 430); Smyth, "Recent Developments," 798.

[48] Yingyi Qian "Enterprise Reform," 431.

process will come about *before* systemic collapse but paired by *gradual and spreading partial demise of the net, resources, motivation and behaviour.*

Due to structural and dynamic traps, no matter the pattern, self-reproducing mechanism is self-consuming. This process may be delayed or accelerated by the larger aggregation and by the environment external to the net. In case of the persistent coincidence of hardening of reproduction constraints and hardening of budget constraints in relationship to the external environment of the net (be it competitive pressure or due loan repayment), the traps are reinforced by the escalated implementation of pattern-conforming measures, leading to accelerated increase of tensions and abrupt collapse, to disintegration and smooth collapse and to disintegration and spreading partial collapses according to patterns.

The different paths of development, disintegration and transformation that the three specific patterns of power distribution characterize will have *substantive imprint* on the system's transformation. The patterns will determine whether economic or political transformation comes first. They will also determine the degree of smoothness of the collapse, the level of turmoil in the disintegration and transformation of the remaining elements and the level of cumulated uncertainty[49]. Structure and dynamics of the former pattern and the individual characteristics within them will influence the depth and length of the economic and social crisis, the hardness of creating macro-equilibrium, the chances for economic reforms and the speed and possible timing of the transformation of the former constructing elements of the structure. The specifics of pattern transformation will have a strong effect on the level of corruption, the extent of stratification of the society and the flexibility in adaptation, the difficulties in the introduction of the rule of law and the development of according behavior. Therefore, pre-collapse patterns will also strongly influence the *room for maneuver* of leaders in building and successfully implementing their strategies[50].

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[49] Bunce and Csanádi, "Uncertainty," 1993, Csanádi, *Party-states*, 281-284. Before collapse, reform outcomes in an economic sense, even if confronted with evaluation of the global market, are distorted by the institutional consequences of political rationality of decisions within the net. The same argument applies to the measurement of the efficiency of those reforms that occur outside the net in Self-withdrawing patterns. Factors of economic evaluation in the field outside the net are distorted due to their relationship with factors within the net.

[50] Csanádi, *A comparative model*, 2003.

## THE CHARACTERISTICS OF REFORMS ACCORDING TO DIFFERENT PATTERNS

The dynamics of the patterns provide an answer to the place and role and impact of reforms within the context of the reproduction and transformation of the party-states. Thereby they provide a solution to the sharp disputes that evolved in the comparative reform literature over the ideal *location, pace, and sequence* of reforms and the *regime* under which their implementation would be ideal. Based on these issues, two characteristically opposing views have evolved. A sharp line between them was drawn according to their conviction that reforms are efficient if they occurred from above or below, if their pace was gradual or shock in nature. Their conflicts also crystallized around the issue whether first economic or political transformation should take place and whether reforms would be better implemented under democratic or authoritarian regimes[51].

However, if we took any of the above opposing arguments as keys to ideal reform strategies we can identify counter-examples to each of the above-enumerated positive and negative factors. The IPS model claims that the self-similar traits, the different patterns and their dynamics will provide a solution to the above puzzle. *Table 1* that details the structure and dynamics of the three patterns already implicitly involves those dimensions within the appropriate patterns over which scholars in comparative reform literature are having the major disagreements.

*Table 2* contains explicitly the consequences of general and pattern dynamics concerning the critical dimensions within the systemic context.

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[51] . The detailed evaluation of these views in the context of the IPS model is found in Csanádi, *A comparative*, 99-121. Some of the most prominent representatives of this literature are Aslund (1994); Burawoy (1996); Bunce (1994); Cai, and Zhou (1998); Cao, Qian and Weingast (1999); Chen, Jefferson and Singh (1992); Dewatripoint and Maskin (1995); Dollar (1994); Gelb, Jefferson and Singh (1993); Gomulka (1994); Gordon and Li (1997); Granick (1990); Hale (2001); Hellman (1998); Huang (1990,1996); Jin and Haynes (1997); Layard (1998); Lin (1989); Lin, Cai and Li (1995); Li (1994); McMillan and Naughton (1992); McKinnon (1993); Naughton (1996), Nolan (1996); Pearson (1997); Qian and Xu (1993); Qian and Roland (1998); Rostowski (1994); Sachs and T. Woo (1997); Sachs (1993); Shirk (1993); Shuhfan (1997); Solinger (1996); Solnick (1996); Sun (1997); T. Woo (1994, 1998); Tong (1997); Walder (1994, 1995); Weingast (1995); Wildasin (1997); Wong (1985); Wu (1994); Xu and Zhuang1(998); Y. Lin (1996).

| Reforms | SELF-EXPLOITING | | SELF-DIS-INTEGRATING | | SELF-WITH-DRAWING | |
|---|---|---|---|---|---|---|
| | Before Coll. | After Coll. | Before Coll. | After Coll. | Before Coll. | After Coll. |
| Below | – | x | – | x | x | |
| Above | – | x | x | x | x | |
| Gradual | – | x | x | x | x | |
| Shock | | – | – | x | – | |
| Political first | – | x | x | | – | x |
| Economic first | – | | – | x | x | |
| Authoritarian reg. | – | | x | | x | |
| Democratic reg. | | x | | x | | |

*Table 2.* **Major characteristics of reforms according to different patterns**

Combining the results of *Table 1* and *2*, we may stress, that no reforms occur in Self-exploiting pattern before system collapse, while either one of them may take place after system collapse. In this pattern, political transformation is first, and economic transformation comes second. From *Table 1* we know that system collapse is abrupt, and disintegration will go parallel to the political and economic transformation after collapse in a democratic regime[52].

In the Self-disintegrating pattern reforms are from above and gradual, they take place before collapse under authoritarian regime and political transformation precedes economic transformation after system collapse. After system collapse, according to variations within the pattern, both shock and gradual reforms and from above and below may occur during economic transformation. *Table 1* relates that system collapse in this pattern is smooth and disintegration pre-empts, while transformation follows system collapse.

In the Self-withdrawing pattern both reforms from above and below occur before system demise. Reforms are gradual, and economic transformation comes first in an authoritarian regime. From *Table 1* we know that

[52] Democratic regime first of all means the formal rules of democracy and does not relate about the extent of practical democracy and the different forms of democracy. Moreover, since rules are not yet settled in the society and cumulated uncertainty is the highest in post- Self-exploiting transformations, and an authoritarian way of governing may develop under the formal rules of democracy.

disintegration and transformation runs parallel before system collapse and that the system's demise is gradual and partial and spreading.

Based on the above, we may stress that the context and dynamics of the patterns determine the location of reforms. In Self-exploiting pattern no reforms are taking place, while in Self-disintegrating pattern overwhelmingly reforms from above, and in Self-withdrawing ones reforms from above and below prevail before the system collapse. The patterns also define the sequence of transformation of the elements of the structure. In Self-exploiting and Self-disintegrating patterns first political and than economic transformation is taking place. In the Self-withdrawing pattern first economic transformation is taking place. This sequence strongly influences the economic and social conditions and also the nature of the regime the transformation occurs. In Self-disintegrating pattern the transformation is pre-empted by economic decline and accompanied by transformation crisis. In the Self-withdrawing pattern the transformation is accompanied by economic growth. This latter takes place overwhelmingly in the domestic field outside the net, while within the net loosening cohesion, tensions economic decline and transformation crisis develops, though smoothened by the resources and space the alternative field creates.

## CONCLUSION

The Interactive Party-state model was introduced as a comparative analytical instrument for empirically analyzing the structure and dynamics of party-states and the characteristics of their transformation. The paper described the main elements, main connecting and operating principles of party-states based on the structure of power relations. These characteristics are self-similar in time in space, in different aggregation levels and in different conditions of the structure. It also reveals the structural background of the differences in the distribution of power among party-states. Based on this background, it defines three basic patterns of power distribution and their dynamics of self-reproduction. It reveals the pattern-conform frequency of hardening reproduction constraints, the pattern-conform instruments of resource extraction and the characteristic paths of self-reproduction, disintegration, collapse and transformation. Due to the self-similar structural and dynamic traps within the system, all three patterns are deemed to *self-destruction during self-reproduction.* This process may be delayed or accelerated by the pressure of the environment external to the net.

The dynamics of the patterns provide an answer to the place and role and impact of reforms within the context of the self-reproduction process of the

net. The self-similar traits, the different patterns and their dynamics as well as their imprint in post-collapse developments will explain the differences in the *location, pace and sequence* of reforms and the *regime* under which these reforms are implemented. The patterns and their dynamics also provide an answer why some party-states did not reform at all. It also sheds light on the structural reasons of the differences economic decline or growth pre-empting and accompanying the transformation. It points to the structural background of the differences in the level of turmoil and accumulated uncertainties during the transformation, the differences in the depth and length of the economic crisis, short-term behavior and in the level of corruption, forging the constraints for the stabilization and other reform strategies.

Therefore, if one analyzed reforms and outcomes and formulate ideal strategies over the location, sequence, speed and political regime of reforms *disconnected* from their systemic and pattern context conclusions and outcome will be akin. Without systemic and pattern context the different sub-fields become blurred with patterns and systems, or different patterns become homogenized, or patterns become blurred with systems and different systems become homogenized. Thereby room for maneuver in designing and implementing reform strategies will be miscalculated and will lead to unexpected results. Structural specifics and its consequences cited above do not allow for the creation of a universal reform strategy. According to different patterns of power and their imprint on the transformation, similar macro conditions incite different reactions and solutions according to structural specifics, similar instruments implemented will have different outcomes, and similar results may be caused by different strategies.