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A Model Explaining Social and Political Change of Party-states Structural and Dynamic Background of Similarities and Differences in Reproduction, reforms, Collapse and Transformation

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DISCUSSION PAPERS
NEW SERIES 2001/1

REFORMS AS INSTRUMENTS SUSTAINING AND UNDERMINING THE SYSTEM

THE INTERACTIVE PARTY-STATE MODEL AS A FRAMEWORK FOR COMPARING CHINA AND HUNGARY

MÁRIA CSANÁDI

Budapest
January 2001

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A Model Explaining Social and Political Change of Party-states

Structural and Dynamic Background of Similarities and Differences in Reproduction, reforms, Collapse and Transformation

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MÁRIA CSANÁDI

A MODEL EXPLAINING SOCIAL AND POLITICAL CHANGE OF PARTY-STATES

STRUCTURAL AND DYNAMIC BACKGROUND OF SIMILARITIES AND DIFFERENCES IN REPRODUCTION, REFORMS, COLLAPSE AND TRANSFORMATION[1]

Abstract

I shall argue that the Interactive Party-State (IPS) model (Csanádi, 1997) *allows us to place the Chinese and Hungarian party-state structure and dynamics into a common framework. This framework sheds light on the structural reasons behind the different functional effects of reforms. This paper is divided into three major parts. In the first section I summarize the structural and dynamic properties of the IPS model. This is followed by arguments raised regarding its general nature, and consequently, the applicability of the model to China based on common structural and operational grounds. Finally, I will reveal that behind the robust common ground, the different structural specifics may give rise to the divergent development paths. The primary focus is theoretical, with empirical examples provided. Consistent empirical analysis based on the model will be a following undertaking.*

[1] This work is the theoretical introductory to a book in the making, that compares Hungarian and Chinese structure and reforms in the context of the described model. The book's tentative title is *Reforms sustaining and undermining the System in China and Hungary.*

CSANÁDI MÁRIA

A PÁRTÁLLAMOK TÁRSADALMI-POLITIKAI VÁLTOZÁSAIT ÉRTELMEZŐ INTERAKTIV MODEL

AZ ÚJRATERMELŐDÉS, A BOMLÁS ÉS AZ ÁTALAKULÁS AZONOSSÁGAINAK ÉS ELTÉRÉSEINEK STRUKTURÁLIS ÉS DINAMIKAI HÁTTERE

Összefoglaló

Az interaktív párt-állami modell (Csanádi, 1997)*, a párt-államok szerkezetének, működésének és átakulásának elemzésére szolgáló általános eszköz. A modell segítségével a párt-állami hatalmi szerkezet és annak dinamikája közös keretbe foglalható. Az elméleti eszköz segítségével rávilágíthatunk a rendszer eltérő újratermelődési folyamatának strukturális hátterére is és megmagyarázhatjuk a strukturális eltérések hatását is e rendszerek valtozására és átalakulására. A tanulmány három részből áll. Az első a modell strukturális építőelemeit és dinamikai sajátosságait foglalja össze. A második rész a modell általános alkalmazhatóságát taglalja a párt-államok közös strukturális és működésbeli sajátosságaira alapozva. A harmadik részben arra világítok rá, hogy az alapvető közös strukturális és működésbeli sajátosságokon belül hogyan értelmezhetőek az egyes párt-államok hatalmi struktúrabeli eltérései és ezek hatása eltérő működésükre és eltérő fejlődési útjaikra. A tanulmány alapvetően elméleti jellegű. Az elméleti érvek illusztrálására konkrét példákkal két egymástól sokféle szempontból távol álló szocialista ország – Kína és Magyarország – szerkezeti sajátosságai es reformjai szolgálnak.*

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INTRODUCTION

"In searching for an approach to guide research into the nature of state socialism, we need a model, which incorporates culture and values and is sensitive to the role of politics and the nature of the economy." (Lane, 1976; *63*)

Long theoretical debates may be traced in the 1930s on the capability of the planning in socialism to successfully simulating the market *(Hayek, 1975)*. These debates were necessarily bound to their period since could not use the experience of the multitude of party-states born after the 1930s. An overwhelming quantity of literature was born on totalitarianism accentuating the supremacy and total dominance of politics and the ruling elite in the social system. These theories, defined during the Cold War period as a counter ideology of Soviet Marxism *(Lane, 1976;* 44*)*, could not come to grips with the differences among totalitarian party-states and their departure from the Stalinist model. Similar problems emerged when party-states were defined as monolith constructs, neglecting both the structural differences among and within them and the fuel of development[2].

There are powerful theories on the economic operation of these systems: on the functioning of central planning (*Kornai, 1959),* on the eco-

[2] In the 1970s, *David Lane* defined the shortcomings of the different approaches to analyze state-socialism as follows: "While each theory provides some valuable insight, non provides us with a model with which we may do justice to the complexity of the kind of society we are studying. We have criticized the Soviet Marxist model because it gives no prominent place to conflict and does not adequately show how under socialism the politics of the society intermesh with the societal structure and social change. The state-capitalist and totalitarian approaches clearly emphasize the role of a ruling class and ruling elite respectively. But the former does not satisfactorily define the nature of the ruling class and the latter does not explain the values and motivations of the rules. Both these theories exaggerate the role of violence and neglect consensus. The industrial society theory brings out the ways in which a common technology influences social institutions such as the educational system; but it lacks a social or class dynamic and glosses over the fact that property classes characterizing capitalist society have no counterpart in state-socialist society. The worker's state theory gives prominence to the class nature of Soviet society and brings out the role of values in economic change and social development. Whilst recent thinkers, such as Mandel have recognized the role of culture and of historical experience, a sociology of state-socialist society has not been attempted; the nature of consensus under state socialism is little explored and too many ills of the system are attributed to bureaucracy *(Lane, 1976;* 63*)*.

nomics of shortage *(Kornai, 1981)*, political economy of socialism *(Kornai, 1992)*, on the investment cycles in socialism *(Bauer, 1988)* on the role of the money, planning and market in socialist systems *(Soós, 1987)*. These theories neglect the impact of politics on the redistribution and accumulation, and its influence on the reproduction of shortage, or on the investment or planning cycles.

Deep-drilling empirical field studies were born on several dimensions and segments of the system, seeking its political, institutional, economic and developmental aspects, from different approaches: political science, history, sociology, anthropology and economy. There were works that focused on political issues: the central and local party and state elite, the nomenklatura. Others analyzed institutional aspects: central and local governments, planning, bureaucratic procedures, regulations and bargaining processes. Economic aspects were also addressed: the distribution of resources, partial markets (e.g. workforce, second economy), territorial differences, enterprise behavior. Also developmental aspects were analyzed: investment cycles, reforms, revolution, collapses and transformations. These studies however, were obviously not addressing the operation and change of the party-state system as a whole.

The sweeping collapse and post-collapse developments of the party-states in Soviet Union and Eastern Europe inspired both former field students and comparative scientists to compare the differences between their subject and Soviet and East-European events. A huge "transitology" literature boosted up to analyze and explain the differences in the collapse and post-collapse development of the former party-states. Another field has flourished when theorists dealing with developing countries begun to compare the Latin-American and Southern European transitions from authoritarian to democratic rule to the post-collapse transformation of the former party-states (for an analytical overview of these comparative efforts see *Bunce, 2000)*. These literatures did not take into consideration the specific determinant features of party-state structures compared to authoritarian rules in general. They could not explain, why some party-states collapse and others don't. Could not convincingly explain why the political order and social development after the collapse is so divergent in the post-socialist transformations. They could not reveal the structural reasons for the existence of reforming and non-reforming party states, neither the collapse of both despite different strategies. We do not get answer either to the reasons why reforming party-states have taken different development paths after the collapse.

Several theories evolved also upon the puzzle of the dramatically different development process of the Chinese and East Asian economy compared to that of the Soviet Union and Eastern Europe. They attempted to explain the dramatically different developmental trajectories of the Chinese and East Asian economies as against those of the Soviet Union and Eastern Europe (see for example: *Jin* and *Haynes, 1997; Tong, 1997; Lin* and *al., 1995; Halpern, 1989; Montinola,* and *al., 1995; Naughton, 1996; McMillan* and *Naughton, 1992; Qian* and *Xu, 1993; Solnik, 1996; Wu, Y. Sh., 1994; Walder, 1995; Gelb* and *Jefferson, 1993; McKinnon, 1993; Wing Thye Woo, 1994)*. The questions were, and still are the following: why some economies collapse while others remain cohesive, and why reforms are successful in some party-states and not in others.

Interpretations that have been offered are wide-ranging, and the arguments are complex. Yet, they can be grouped along specific dimensions. First, there are arguments that draw upon the specifics of the countries involved – for example, variations in culture, geopolitical location, the state of development of the society in which socialism was founded, and the actual size of the countries in question. Secondly, there are temporal arguments – for instance, differences in historical context when the party-state was formed, differences in the stage of development of the specific party-state when it started to move away from state socialism, the prevailing international context, and world historical timing (or differences in the window of opportunity for the transformation). The third group of arguments is based on institutional differences. This involves differences in the institutional structure, the level of institutionalization, the level of decentralization of decision-making, and even differences in the character of political power during the transformation. The fourth set of arguments is more dynamic in nature. These include conscious strategic choices made by the elite and counter-elite, incremental versus radical reforms, the origin of reforms (from below or from above), the sequencing of political transformation versus economic transformation, and so forth. These four types of arguments have appeared in the literature in various combinations.

Whatever the approaches taken, they all aim at explaining the successful growth attributed to the Chinese style economic reforms versus the recession, collapse and hardships characteristic of the Soviet and Eastern European "failed" reforms. But these reforms are and were in subject and aim very similar. Why then, the different outcomes? Does the response lie indeed in technical issues such as timing, sequencing, and effective enforcement? Is it a question of apt reformers versus those constrained by

domestic and/or external forces? Is it the different reaction of the society to reforms that matter?

In this work I **define the grounds of an institutional model of party-state system as such, and reveal the political-economic-social logic of its reproduction and change**. My goal is to grasp the system's main building blocks, and the interaction of these building blocks during reproduction. I will point to the structural motivations during interaction and the structural inequalities driving to differences in bargaining capacities during the reproduction process. From this point of view, the analysis reevaluates the general concept of soft budget constraints and locates its role and impact in the reproduction process. It aims to shed light on the structural background of the differences among party-states and the impact of those differences on the reproduction and the transformation of these systems. It makes effort to bridge over the different aspects and approaches and combine theory with empirical knowledge to become comprehensive. It worries about institutional details, linkages between people and positions, the production and flow of resources, the rules that govern relationships, interactions, interests and behavior, the missions of institutions and their relationship to policies, the boundaries of the structure, the tie between that structure and its operation and the pressures to reproduce. It traces the political-economic and structural logic of the implementation of different instruments for reproduction. Reveals the consequences of the mutual impact of instruments and structural specifics on the reproduction and transformation process. This way it makes an effort to embrace structure and dynamics of party states – both common traits and the differences – in time, in space in the level of aggregation and in the state of condition of the system.

A. THE INTERACTIVE PARTY-STATE (IPS) MODEL

The IPS model was developed upon empirical data provided by the development of the Hungarian party-state and it was extended to the East European systems, utilizing empirical and theoretical literature. The basic ideas of the model were inspired by twenty years of empirical research on the Hungarian party-state. Survey of data, documents, case studies, archives and more than 400 interviews performed with representatives of the Hungarian state- and party bureaucracy and with enterprise managers provided a unique opportunity at that time to learn on the spot. Results upon research were born on the structure, the operation, the disintegration and the collapse of the Hungarian party-state *(Csanádi, 1989, 1990, 1991, 1992).* The dynamics of the impact of party-states on the transformation was also analyzed. Theoretical results were extended to the structure and operation of the Soviet- and East-European party-states and thereby developed into a party-state model *(Csanádi, 1997)*. This "manoeuvre" was made possible by abundant and excellent secondary sources *(Bunce, 1983, 1985, 1989; Wolchik, 1988, 1990; Comisso, 1988; Fainsod, 1958; Brown, 1992, Grossman, 1983, Hough, 1969, Hough and Fainsod, 1979, Pacepa, 1989, Shapiro, 1970, Tarkowski, 1990, Voslenski, 1984, Zemtsov, 1985)*. These studies analyzed the then Eastern Bloc and its individual countries from different perspectives, at different levels and periods. Thus, the theory evolved into a dynamic model, which postulated a self-similar character for the structure and operation of party-states in different dimensions and explained the structural reasons for the differences among them *(Csanádi, 1997).* 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 *(Blagojevic, 1999; Bunce, 1999; Solnik, 1996; Wu Yu-Shan, 1994).*

The main idea of the model is based on simple empirical evidences: relationship between party, state and economic decision-making is very close. This close relationship has its institutional background: party-, and state hierarchy and state owned economy is interconnected through the power instruments of the party. These instruments (such as nomenklatura system, subject-matter responsibility, instructor system and party membership) provide direct connection between party-, state- and economic decisions. On the one hand these institutional ties allow influencing and controlling non-party positional-, activity-, organizational-, structure and individual behavior in non-party fields. On the other hand the very same instruments forge the channels for interest promotion of

decision-makers embraced by these instruments. Interlocked structure evolving from these relationships reveals in-built inequalities of interest promotion. Bargaining capacities of those who match political priorities of the party are stronger than that of those who don't. Actors with different bargaining capacities form the party-state power structure. This party-state structure (network) is no empty skeleton. It is filled with activity of varying intensity and held together by the interests, motivations, appropriate behavior and communication of its actors. The dynamics, due to the distinctive nature of its internal connections, can be defined by characteristic principles. The consequences of these principles are: the politically monopolized dependence of decision-makers, politically monopolized distribution of resources and the politically monopolized interest promotion. **Direct links of party- and economic decision-makers through the party's instruments of power and via those, the politically monopolized dependencies, interest promotion and resource distribution will induce politically rational motivations and behavior for economic ends. Until the principles of operation do not change, political rationality of behavior will prevail within the reaches of the net.**

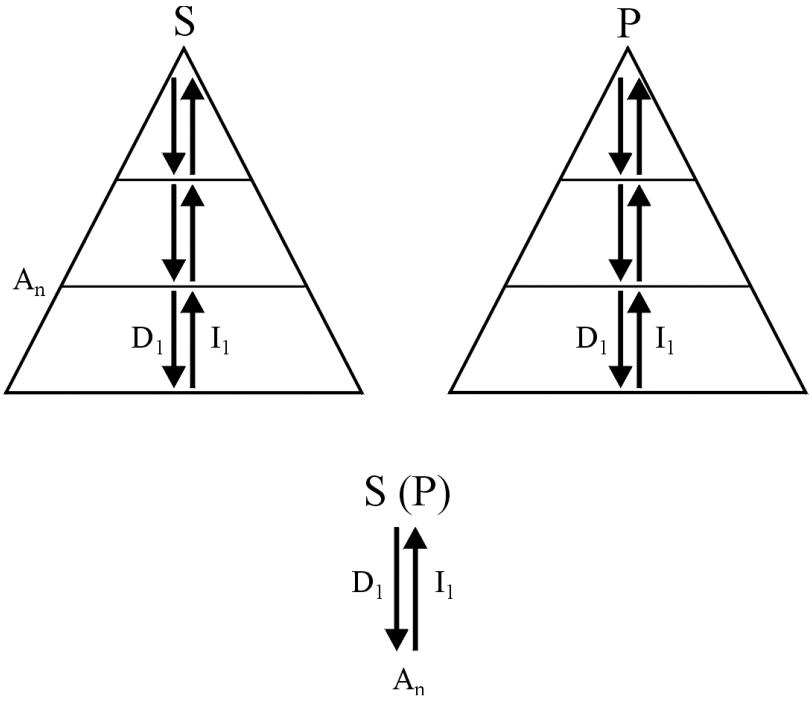
In the following pages, the construction of the Interactive Party-State (IPS) model will be emphasized. In detail, (I) the basic components, (II) the main connecting principles of these elements, (III) the kind of inter-related structure it forms, and the inequalities in dependency and interest promotion built in the structure, (IV) the main principles of operation of this structure, inducing the dynamics of reproduction.

I. The basic components of the IPS model

Party-states are in general regarded as hierarchical structures[3]. It is evident, that both the structure of the Party apparatus, the State apparatus has a hierarchical shape. But is that also so obvious that the structure formed by their interplay follows the rules of a hierarchy? Let us now turn to the

[3] "In the case of highly centralized jurisdiction, the principle of hierarchy indicates that every problem, assignment, conflict, indeed every social phenomenon requiring a decision becomes incorporated into a hierarchical chain of activity. On its way upwards, it needs to pass through well-defined stages until a decision is taken. In the opposite direction this decision then passes through the same vertical institutional chain (which was formerly used to transmit information upwards) to reach the bottom where the given problem originated" *(Bihari, 1985;* 115).

detailed description of the main components of the party-state structure based on some simple statements. These simple statements though will induce an extremely subtle structure.



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
I_1 Path of intra-hierarchy interest promotion

Figure 1 ***The formal hierarchies and the possible course of interest promotion along the intra-hierarchy (D_1) thread from the perspective of decision-makers (actors, A_n) at various levels of the structure.***

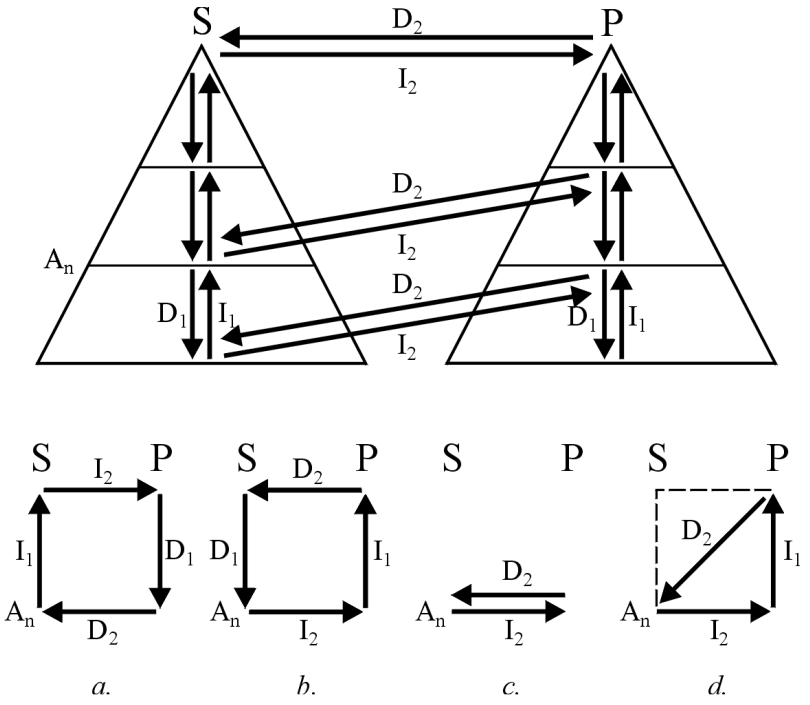
(i) The party hierarchy (P), with hierarchical dependency lines (D_1) and direct interest promotion (I_1) through these same lines *(Figure 1.)*

(ii) The state hierarchy (S) with hierarchical dependency lines (D_1) and direct interest promotion (I_1) through these same lines *(Figure 1.)*

(iii) State-monopolized ownership, and resources *(Figure 1)*

(iv) Dependency lines inter-linking party and state hierarchy. These inter-linking lines are formed by the instruments of party power and embrace individual decision-makers. Interlinking lines originate from the party hierarchy and break through non-party institutional boundaries and reach out to individual decision-makers (D_2) *(Figure 2)*. The most important of these instruments are: the nomenklatura

system that reaches individuals in non-party and party organizations though their **position**, the instructor system reaching individuals through party organizations within non-party **organizations**, the subject-matter responsibility tracking the fulfillment of party priorities through the non-party organization's **activity**, and through the party discipline required from individual **party members**[4].



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

Figure 2 ***The basic network and possible paths of interest promotion along intra-hierarchy and cross-hierarchy threads (D_1 and D_2) from the perspective of decision-makers (actors, A_n) at various levels of the structure***

There are several similar instruments, which vary in kind and importance according to the given period or given country. For example, in China the so-called party core groups are strengthening the ties

[4] Type-setting of empirical examples is italic with single line spacing.

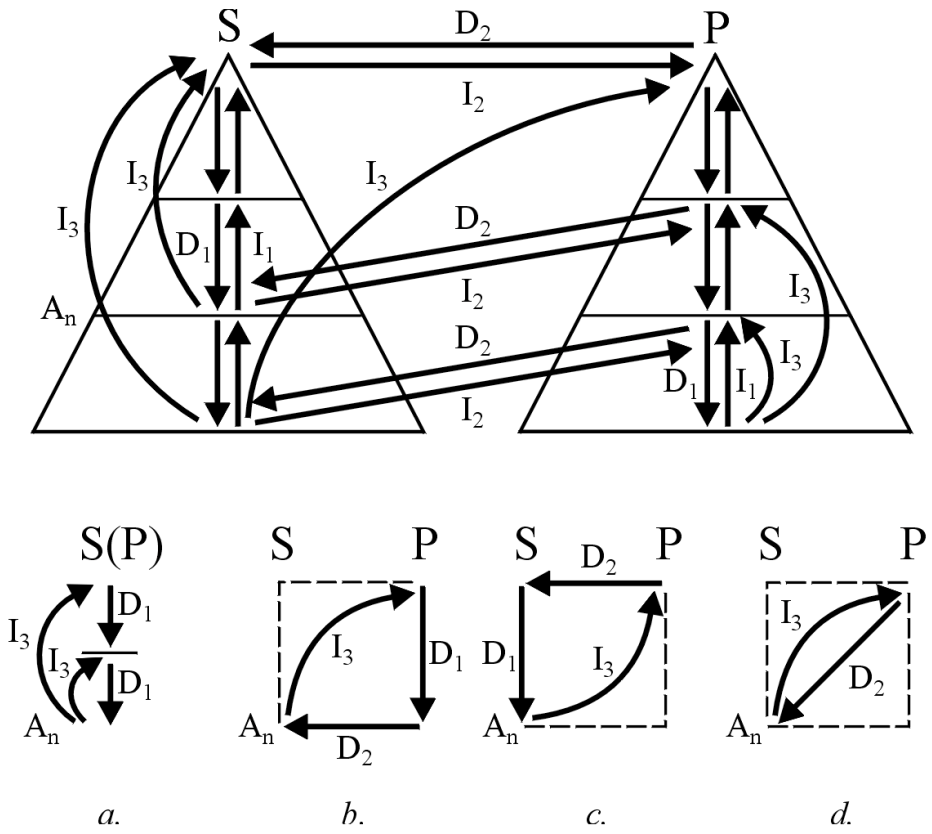
between party and government institutions. Party core groups are composed of the administrative and political leaders of the institution, apart from the party committee located in these organizations supervised by the Organization Departmenst of higher party authorities (Burns, 1994). *They form an operative decision-making team. However, the variety and strength of the interlinking threads do not change the fact of their very existence.*

Using a combination of these instruments, and by reaching individuals, the party was able to infiltrate the whole of the non-party decision-making structure. These instruments penetrated the walls of the state hierarchy and of the economic (and other) institutions monopolized by it. In this way, individual decision-makers were reached from several directions. These instruments served for the forwarding or passing on of norms, and were, at the same time, instruments of control. Simultaneously, these very same dependency lines serve as channels for interest promotion (I_2) outside the non-party hierarchy towards the party hierarchy in all those directions (and levels) from which the interlinking lines depart. **In consequence of the direct connection of the party, state and economy through these lines, all political decisions become directly economic and all economic and administrative decisions become directly political, causing high political sensitivity.**

(v) The fifth element of the party-state structure is feedback *(Figure 3)*. Feedback connection (I_3) shortcuts the lines of dependency within and across party and state hierarchy. These shortcuts provide a direct link between decision-makers within the basic network that are otherwise isolated from each other. They are isolated because they happen to be in different hierarchies, or are at different levels of the same hierarchy. With the I_3 threads, an actor is able to jump any number of levels in his own hierarchy, and is able to reach any decision-maker on a given level, indeed, any level of the party hierarchy. With the help of the I_3 threads, a feedback loop is formed: one side of it is the I_3, the other is the D_1 or D_2 threads, or a combination of the two.

For example an enterprise manager may be invited to take part in a ministerial board session where export strategy is discussed. It also forms if an enterprise manager is elected for Central Committee. Shortcuts are forged if the enterprise's economic strategy is discussed at the provincial Party Committee (PC) where the manager is invited. Similar effect may be revealed if either a province or county party committee (or government) is elected to the CC membership or a county party committee, (government)

into the provincial PC.



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 3 ***Structural feedbacks (I_1, I_2, and I_3) in the basic network and possible paths of interest promotion through intra-hierarchy and cross-hierarchy feedbacks (utilizing threads D_1 and D_2) from the perspective of decision-makers (actors, A_n) at various levels of the structure.***

These individual feedback connections come into existence where the decision-maker captured by the dependency threads, within and across hierarchies, is able to produce a high level of political sensitivity via the dependency threads. Thus, the feedback is available to those whose activity

or passivity could – through the interlinking lines – provoke tensions in the maintenance of the leading role of the party, in national security, in economic or political stability, or in growth. Those who are capable of being strategically important could easily cause a bottleneck in domestic supplies, in production, in exports to the West, in the satisfaction of the so-called socialist contingencies (state level commercial agreements), in delaying major investments. They are able credibly to suggest the likelihood of strikes and the concomitant political consequences. They are also the very same actors, however, whose assistance helps in the alleviation of these threats, and in the realization of major goals. These goals represent the basic political priorities of the party-state system. It is their impact on these concerns that determines the political bargaining capability of a decision-maker or organization. Hence, there are **selective political criteria** for the emergence of the feedback relationships. With the help of structural feedback, the decision-makers are able to reach higher echelons of decision-making and to directly influence those decisions that affected them both within their own, and the party hierarchies.

We can trace cross-hierarchy shortcuts in China if we take for example those 170 enterprises whose leader's nomenklatura is under the jurisdiction of the "Working Party Committee for Large Enterprises" subordinated to the State Council (interview, 2000). Further shortcuts are provided for the leaders of those 52 enterprises that are in the nomenklatura of the CC (Burns, 1988).

In this way, decision-makers become deeply integrated into the decision-making process with individual interest promoted. Through these closer personal connections, those who benefit from feedback are able to give and receive direct information. They can make promises in return for promised material or non-material pay-off. They are able to make deals, prepare themselves for the effects of unavoidable decisions, find allies, detect potential adversaries, and so on.

While the inter-linking threads (which come from as many directions as possible) embrace the decisions of as many decision-makers as possible, only a relatively few actors enjoy the system of feedbacks. The number of feedbacks, therefore, is limited. However, for those individuals that have acquired political sensitivity, the ability to accumulate feedbacks within this system of direct connections is practically limitless.

An example for the scarcity of feedbacks is revealed if we take the level of the Central Committee in Hungary during the 1970s: if we ignore those CC members who did not have competitive partners within the state structure with equal rank to be chosen from (for example, the Minister for Internal

Affairs, Minister of Defence, the President of the Ministerial Council, the heads of department of the CC apparatus, the CC secretaries, and so on), then of the 150–170 positions to be filled approximately 50–70 remain. Thus, only narrow possibilities remain if we consider the 19 counties, the 22 districts, the almost 700 ministry and council and 661 co-operative industrial enterprises, and the 2,830 non-industrial enterprises including the agricultural co-operatives (Central Bureau of Statistics [CBS] 1980) competing to gain feedback. Added to this are all the other state and social institutions (universities, colleges of advanced education, research institutions, councils, social bodies, and so on) which, in principle, are also eligible for these 50-70 positions (Csanádi, 1984; *50).*

Thus, new inequalities in bargaining abilities are built into the structure: there are individuals that have feedback, those that have only the D_1 and D_2, or those with only D_1, or no institutional connections at all. Structural feedback represents political bargaining power not just for those that directly satisfy these criteria, but also for those who are responsible for them through the D_1 and D_2 threads.

That was probably one of the reasons why in the 1970s provincial governments in China fought for the allocation of jurisdiction over more state owned enterprises thus far subordinated to the central authorities (Sun, 1997; *13). The other reason was to increase local governments' resources. Similar reasons may be revealed in Hungary, where local party committees fought for the allocation of the nomenklatura responsibilities of the leaders of more important state owned enterprises located in their territory* [5].

The party-state, therefore, was burdened from the outset with an extraordinarily complicated structure of interests and inequality, which depended upon the degree of political sensitivity the decision-maker was able to evoke through dependency threads. Because of the great structural complexity of all these threads, and the lack of transparency of the procedures transmitted through them, let us call the threads of this structure as *closed channels* (concerning China see *Burns, 1987, 1994; Harmin, 1992*). The closed channels enmesh every decision-making forum under the pretext of institutionalized and informal interest mediation, even if this occurred in an area that belonged exclusively to the competence of a state body. The sheer size and lack of transparency of the structure strengthens even further the structural atomization of those actors already tied individually to the interlinking threads: unknown and indiscernible forces lie

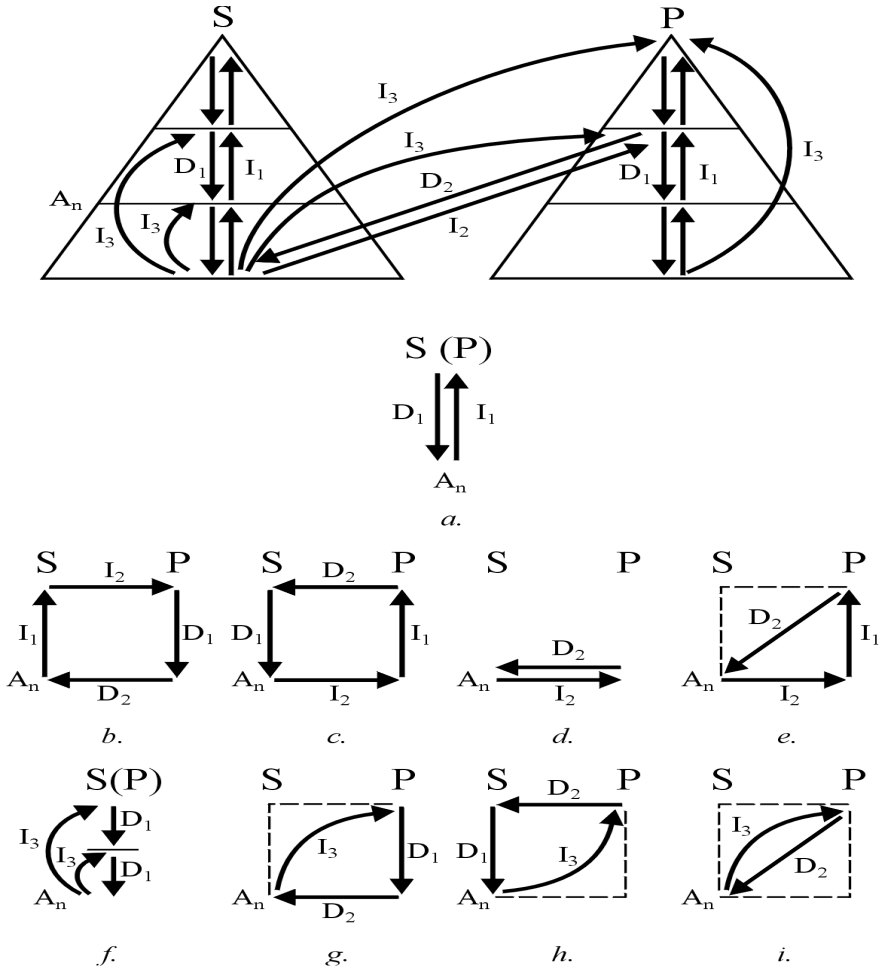
[5] For more details on Hungarian story see *Csanádi* (1987*a*; 1987*b*); *Kovács* (1980); *Lamberger* (1988); *Szalai* (1988); and *Tellér* (1984–1985; 1987).

behind and face each actor. This changeable and indeterminate power will be called the *phantom force.* Because of the existence of the closed channels and the phantom force, decision-makers are unable with any certainty to judge either their own strength or that of their allies or, indeed, the real power of their opponents. Because of phantom force, therefore, the bargaining positions and bargaining capacities of each actor in relation to all the others are always uncertain. Despite the dependence and the unequal capacities for interest promotion within the whole system, this uncertainty demands of every single decision-maker constant vigilance, activity, and adaptability. Even if this position proves relatively stable, each actor has to struggle constantly to keep it so. Therefore, they are compelled to take good care of existing connections and strive to create new ones. This is a matter of insurance in such an uncertain world.

> *The content of the phantom force in any given decision-making situation depends on a number of things: the individual decision-maker's feedback loops that are active at any given moment; the current number of allies, the density and quality of their feedback connections and the level of their accumulation; and, finally the mystified nature of the structures themselves. The phantom force of an actor or an institution behind the actor is always as large as its environment is willing – or is forced – to believe.*

A characteristic of this net is that the advantages accentuating the utilization of personal connections are guaranteed not by the individual's shrewdness but by the very nature of the structure. Thus, the abuse of the system does not stem from breaking its rules, but from utilizing them. The possibility for corruption is structurally given.

Taken together, these elements form the power structures of party-states *(Figure 4)*. They define the channels, and thus, the network for promoting and enforcing interest. In other words: they form the network of interdependent relationships between party, state and economic decision-making. The net also reveals the politically rational nature of the **structurally built-in inequalities and dependencies** within the system's politically rational selection criteria. These criteria define **the politically rational nature of built-in differences** in bargaining positions over resources where equally ranked decision-makers in formal terms are involved.



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 4 ***Power structure of the party-state system and the perspective of decision makers (actors, A_n) on various levels on the possible paths of interest promotion (from 'a' to 'i'.)***

II. The principles of connection within the IPS model

Despite indiscernible boundaries, the structure is built on two simple principles of connection of the elements described above:

(i) **The interlinking dependency threads** D_2**,** as the instruments of Party power **may originate only at the different levels of the Party hierarchy**
(ii) The feed backs between the Party and State hierarchies (cross-hierarchy feedbacks) **may originate only within the non-party institutions**. They reach out to different levels of the party hierarchy and then, by utilizing the interlinking dependency threads D_2 end up in non-party institutions.

III. The party-state structure

Having described the main elements and main connecting principles of the party-state structure, let us now summarize in *Table 1* the main layers of the party-state (see *Figures 1, 2*, and *3*.). This allows us to shed light on the basic differences between the structural features of a hierarchy, the basic network, and finally, the main structural features of party-states. The final net explains how the properties of a hierarchical structure[6] are overcome and the hierarchy blurred (also in *Figure 4)*. **The main characteristics of this structure demonstrate the institutional background of blurred boundaries between state and party, politics and economics, power and society etc.** *(Csanádi, 1997).*

The distinctiveness of a party-state structure evolves through the direct connection between party and state, politics and economy[7] via the interlinking lines, the political nature of built-in inequalities and political integration via feedbacks and the principles on which these connections are based. **These characteristics furnish the unique institutional interactivity of politics and other spheres at the level of individual decision-making.**

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[6] Within formal hierarchies the actors on any one *level* enjoy *identical rank*. At any given level, all actors are dependent to the same extent on all higher levels actors, and they exercise power to the same extent over all levels below them. D_1 lines, representing the dependency threads, are the sole channels of interest promotion (I_1) in a hierarchy.

[7] 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, police apparatus, etc. These sub-spheres in the circumstances of monopolized property relationships, for the sake of simplicity, are "condensed" in the concept of non-party – state – hierarchy.

Table 1 The formal hierarchy, the basic network, and the party-state structure

The formal hierarchy (Elements: D_1 and the state monopolized economy)	***The basic network*** (Elements: D_1, D_2, and the politically mono-polized economy both directly through D_2 and indirectly through D_2 by connecting D_1 in state hierarchy)	***The party-state structure*** (Elements: D_1, D_2, I_3, and the politically monopolized economy through D_1 and D_2)
Its peak is recognizable both within the party- and within the state hierarchy	The interwoven structure has one peak (the party) and one base (those who are not members of the party)	Only the base is discernible: those who are not linked to the struc-ture with any insti-tutionalized threads at all. The peak is discernible only with difficulty
Connections are between and within institutions	The connections both within and between institutions are formed between individuals	Connections both within and between institutions come about between individuals
Dependency is direct: interest promotion I_1 can only come about through hierarchical dependency lines D_1	Dependency is direct: interest promotion within I_1 and across I_2 hierarchy can only take place through D_1 and D_2, respectively	Dependency is two-folded: 1. direct - I_1 and I_2 can only come about through D_1 and D_2, respectively; 2. is also indirect, since I_3 can occur by using up D_1 and/or D_2 as one part of the feedback loop
Dependency is unidirectional: the origin and direction of the depen-dencies is not reversible (thus power is monopolized within the structure)	Dependency is uni-directional: the direction of dependence is not reversible (politically monopolized power)	Dependency is unidirec-tional : the direction of dependence is not rever-sible (politically mono-polized power)
Decision-makers with the same rank are on the same level (here rank is identical with bargaining position)	The bargaining positions of equally-ranked decision-makers on the various levels of the formal hierarchy are different	The bargaining positions of the otherwise formally equally-ranked decision-makers on the various levels of the formal hierarchy are different
Dependency is single-threa-ded: in the process of interest promotion the decision-maker is unable to bypass the level immediately above him	Dependency is multi-threaded: within the formal state hierarchy, the direct superior is bypassable in interest promotion with the help of D_2, but not the party res-ponsible holding the end of D_2	Dependency is multi-threaded: D_1 is bypassable through D_2 with the help of I_2; with the help of I_3 D_1 thread and/or D_2 is bypassable
The single-threaded depen-dency (D_1) and interest pro-motion (I_1) affects every ac-tor who has institutional ties.	The multi-thread affects only those decision-makers to whom at least one D_2-type thread leads (indirect feedback)	I_2 and I_3 are the privilege of only those decision-makers that satisfy the system's selectivity criteria

Remarks: D_1 is the intra-hierarchy dependency thread; D_2 is the dependency thread which originates in the party and links the two hierarchies; I_1 is the intra-hierarchy interest promotion thread through D_1; I_2 is the inter-hierarchy interest promotion thread through D_2; I_3 thread represents the structural feedbacks within the basic network (within and across hierarchies, being the origin of this latter always in non-party hierarchy and its target in party hierarchy)

IV. The main principles of operation of the IPS model

What kind of operation this interlocked structure will induce? Are there any regularities to it? The dynamics of the party-state structure, due to the distinctive nature of its internal connections, can be defined by characteristic principles. The principles of its operation**,** just as its basic elements and principles of connection are rather simple:

(i) While all decision-makers have D_1 threads of control, only the party's decision-makers can have D_2 threads that link through them all the others within the structure. Therefore, **dependencies are politically monopolized.**

(ii) Through the state monopoly over the ownership of the means of production, and through the threads of control binding the state to the party hierarchy (D_2), property rights and extraction and distribution of **resources become politically monopolized**[8].

[8] Distribution and extraction of resources does not mean only budgetary action. It means actions that directly or indirectly provide financial resources. E.g. In China **t**hese were the following at different periods, allocated to different levels of aggregation: the selective distribution of investment quotas, investment flows from central authorities by attracting central projects (allocation of central investment funds by being linked to a larger, centrally planned long-term development program), selective distribution of foreign currency; profit retention deals; project approval; province revenue sharing; selective depreciation fund centralization; tax incentives; tariff reductions; licensing priorities; raw material and capital goods import duty privileges; distribution of scarce resources Category I, II, freedom from export duties; diminishing bureaucracy; allowing for reform experiment; foreign exchange retention rate; export subsidies; listed separate line item in the state plan (meaning the set of economic powers equal to that of provinces); right to approve overseas investment over a certain amount of dollars; permission to issue state bonds; disposal of funds appropriated from the state and the central bank, without approval from the province; power to grant loans to city firms without reporting or seeking approval; acquiring own planning quotas directly from the central government, without having to go through the province; decentralizing SOEs providing further local taxes; set prices; distribution of raw materials (electrical power, iron); getting lowered tax rates; authorization to issue securities; authorization to utilize foreign exchange; liquid asset loans; authorization to directing FDI; being selected to become a high-tech (or else) industrial development zone; allowing the settlement of foreign funded enterprises; visit of higher party and government personnel; imposing extra levies and taxes; middle- and long-term loans; be part of preferential policies; representation in central political and government bodies; representation in provincial bodies; credit relief for those indebted; those exempted during austerity programs; exemption of profit adjustment tax introduced in the second half of 1984 (intended to siphon off excessive "policy" profits not due to efficiency) etc.

(iii) Since there is no other way to enforce interests within this system except through the direct or indirect utilization of the D_1 and D_2 dependency threads, **interest promotion possibilities are also politically monopolized.**

As a consequence of these structural characteristics, in the politically monopolized structure, all political decisions will have both economic and administrative consequences, and all economic and administrative decisions will have a political resonance. Not only the structure but the principles of operation reveal the interactive character of the model. This also defines the institutional background of politically monopolized dependencies, distribution and interest promotion and, thus, the framework of structural motivations defining behavior.

V. Structural motivators in the dynamics of reproduction inducing political rationality of behavior

What are the structural motivators that afford the dynamics of the structure, filling it with activity? Let us see first see, how the interactive structure determines the position of decision-makers.

All decision-makers within this structure with access to dependency threads find themselves in a **dual situation**: they are at once controllers and captives of the dependency threads. This dual situation is characteristic of any hierarchy. What is specific to this structure are the politically monopolized activity, organization and positional structure and the politically monopolized properties through the state monopoly and interlinking ($D_{2)}$ lines. All these will determine the incentives, motives and

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In Hungary after 1968 resources meant for example the subsidies given to priority production, or to compensate losses; there were differentiated production taxes imposed over revenues judged non-deserved. Fixed, constrained and free prices, medium- and long-term credits, scarce manpower were allocated to certain enterprises and growth was selectively allowed by ranking enterprises into a, b, c categories: to be reduced or shut down, to be kept on the same level and to be developed. Territories were also ranked into different development categories. All these meant direct or indirect access to financial resources. It had similar consequences when some of the enterprises were selected as key enterprises of long-term technical development programs, or as ones contributing to the long-term national economic plans by submitting their own. Enterprises were also being pointed out as those allowed to directly purchasing raw materials and spare-parts from the producer, avoiding wholesalers. Some enterprises were allowed to merge other enterprises, or to import scarce goods from abroad etc.

dynamics within party-states. The duality of this situation produces within decision-makers an extraordinarily complex set of motives and pressures which function as **the *structural motivators*** of behavior.

Within this politically monopolized power structure, decision-makers, as controllers of the dependency threads, are both able and compelled to intervene anywhere within the structure. They are able not only to monopolize priorities in the exploitation of resources, but also to determine priorities in the distribution of resources and privileges. Indeed, they are by principle able to intervene anywhere within the system in the name of "general" (monopolized) responsibility. At the same time, however, decision-makers are compelled to intervene because of the constant pressure from those who can only realize their interests through the dependency threads. The pressure to intervene is enhanced by the political sensitivity through interlinking lines. Intervention reflects political concerns and expectations over economic activity.

> *For example, it is the party and state organizations that are responsible for the efficiency of economic activity. They expect a political struggle to check the growth in state subsidies. The formulation of long-term perspectives within enterprises is perceived to be a function of political agitation. Combating short-term perspectives is perceived to depend upon personal integrity, upon communist consciousness and class struggle, and requires from the individual a revolutionary stance towards his own organization (enterprise). The selection of products according to their usefulness depends upon the supervising organizations.*

In order to satisfy the constant pressure exerted upon them to redistribute resources and in order to acquire resources to redistribute, decision-makers (as controllers of the dependency threads) are forced constantly to intervene and to siphon-away resources; this, on the other hand, motivates the decision-makers (as captives of the dependency threads) again to utilize these threads as "pleaders"[9], and so continue the above described process.

The ability and the compulsion to intervene through the dependency threads ensure constant possibilities and reasons for continuous and politically based acts of intervention. The party-state structure behind the possibility and interest to intervene makes it possible to carry out interventions of any extremity. It will be capable of altering activities and priorities, of restructuring organizations, of increasing forced social mobility or constraining it, of carrying out purges at any level, of transferring capital, manpower, or even. The extent to which these possibilities were applied in

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[9] As intervention covers extraction and reallocation of resources, pleading covers the interest promotion both for allocation and for exemptions of extraction.

practice varied according to the power relations at that specific point in time (see the difference for example between Hungary in the first half of the 1950s and after the 1968 reform, or China during the Cultural Revolution or after 1994).

The constant scramble for resources forces actors to strive continually to exploit resources and to promote the practice of selective allocation of resources. What would happen if they were not to intervene? In a politically monopolized system, they would be abandoning those who turn to them as the only source of help, for in this system there are no other avenues for interest promotion. To be abandoned in this politically monopolized system does not lead to enhanced autonomy, but to greater dependence upon and exploitation by the remaining dependency threads. Furthermore, there would be a reallocation of power to the benefit of those who have continued to control the threads to the disadvantage of those who have broken them. In other words, the power-holders would voluntarily surrender their own positions of power.

> *Here is an example that illustrates the shift in power relations. In 1981 three branch (line) ministries were merged into one Ministry of Industry, deprived from intervention rights and pressured for not promoting the interest of enterprises subordinated to it. Its task became the to promote long-term industrial policy: "...but the enterprises eventually discovered that a very large proportion of matters depend on functional ministries, i.e. on state institutions whose organizations (either through the instructor system or subject-matter responsibility –* M.Cs.*), belong to us. Thus, if they want to achieve something at the National Bank, the Price Office, the Ministry for Foreign Trade, they often come here"* (CC Department of Economic Policy, 1984).

On the other hand, decision-makers as captives of the structure's dependency threads, decision-makers are at once exploited by, and have an interest in the continued existence of the dependency threads. Decision-makers are exploited because the political expectations relayed through the dependency threads, in all sorts of ways, limit their room for manoeuvre. At the same time, decision-makers have an interest in maintaining these dependency threads: within the politically monopolized system there is no other avenue for interest promotion. Decision-makers are interested in utilizing the dependency threads in order to obtain resources and concessions–precisely these lines that guarantee their opportunity to bargain and increase their room for manoeuvre. In order to be able to utilize these dependency threads, actors have to adapt to the expectations relayed to them through these threads. The simultaneous presence of dependence and

interest explains why decision-makers in the given structure adapt to the requirements of forwarded ***political rationality.***

In this process, it is not mere coercion but the decision-makers' own well-considered interests as "pleaders" that force them to satisfy the expectations of their superiors, to accept the prevailing power structure, indeed, to consider the dependency threads indispensable. However, what would happen if they behaved in a different way? Decision-makers, as captives of the dependency threads, would voluntarily give up their bargaining opportunities. In other words, they would give up the avenues through which they obtain information and promote their interests. They would jeopardize the future of their organization, activity and their own careers. Therefore, their economic behavior as "pleaders" is also politically rational.

In sum, structural motivators, that is, the ability and compulsion, the dependency and interests strongly tied to each other, guarantee within the whole structure a ***politically rational behavior*** pattern on the part of the decision-makers. These also represent the driving force for the functioning of the structure and, through this, the cohesive power of the politically monopolized system.

Feedbacks do not alter, but improve the efficiency of the system's functioning. There are two reasons for this. First, they multiply the chances of decision-makers to influence decisions that affect them by encountering decision makers on other levels and hierarchies whom otherwise they would never meet. Secondly, the feedbacks make it possible directly to take into account and supervise interests of key importance to the political power structure and thus shorten the reaction time to decisions. Because of that, **feed-backs institutionalize the selective distribution and the political rationality of the selective distribution as well as the enhanced bargaining capacity of those having strategic resources.**

Through the motivating effect of the structural background, decision-makers, in order to obtain a more advantageous bargaining position as "pleaders", try to establish feedback with as many places as possible. Through accumulating feedbacks, the interests of the very same actors are projected from several directions, giving the impression of a multitude of similar interests and this increases the size of these actors' phantom force and pressuring capacity. To enable them to do this, they must be capable of generating a high level of political sensitivity. This requires accumulating weight, which leads to the drive for resources. This drive leads to requests for support through the dependency threads and this, in turn, forces them to

meet the expectations relayed to them. Meeting the expectations at the same time signals acceptance of the power exercised over them.

It is clear, therefore, that it is the system itself that creates those conditions – the structural motivators – that inspire the decision-makers to intervene, to select, to apply for resources, and to adapt. Under conditions of political monopoly, these behavior-patterns are **politically rational**. Also the recurring political concerns leading to **specific selectivity** in the distribution of resources and favors, along with the effort to satisfy expectations, have a structural background. Therefore, these behavior-patterns are not based upon subjective motivators[10] that are independent of the structural background. It is precisely the structural motivators that bring them into existence. **In other words, political rationality is the characteristic behavior in the confines of the net induced by the structural motivators stemming from the principles of operation.** Political rationality is therefore, ***system-conforming***. The infrastructure for this behavior-pattern is afforded by the basic network, the feedback mechanism, and the political monopolization of the structure.

VI. Selectively soft budget constraints in the self-supporting process

The basic principles of the functioning of the system and the structural motivators stemming from them, together with the constant efforts based on political rationality create a system-conforming self-supporting process within the politically monopolized system. What kind of characteristics is given to the process of reproduction if political rationality of behavior is the characteristic structural behavior?

According to the properties of the IPS model, it is a consequence of the basic principles of the system's functioning that, within the self-supporting mechanism, there are no *economic efficiency constraints* on the siphoning-away of resources. Therefore, nor are there such constraints on their politically based selective redistribution. Neither is there an economic efficiency constraint upon the interest and behavior-patterns associated with the extraction and redistribution of resources and the adaptation to these criteria. All in all, there are no efficiency considerations in the self-supporting process.

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[10] This is the reason why I do not agree with Kornai's argument in *The Economics of Shortage*, concerning the "natural instincts" of the enterprise manager to strive for growth as explanation of the scramble for growth. (See *Kornai, 1980;* 78, 204–206.)

This statement, despite its similar conclusion, challanges Kornai's general statement of soft budget constraint. Kornai maintains that "...the key question is not what motive excites the scramble for quantity..., the compulsion to expand. The main problem is the following: Is there a force which acts in the opposite direction which would lead to the leaders of production voluntarily holding back their demand for inputs..." (free translation from *Kornai, 1980;* 79). His answer is also that there is no such force. But, according to Kornai, the reason for the absence of this force is that enterprise leaders are not constrained by efficiency considerations, since enterprise budget constraints in socialism are soft (p. 330). In this way they can indulge the inherent desire for growth, which the presence of shortage and central redistribution – and consequently the pressure arising from the demand for their products – will reinforce[11].

How can we define the structural background of the reasons why a withholding force is lacking in the reproduction process? The state's monopoly over the economy, the structuralization caused by the inter-linking threads and that of the feedbacks develop on the basis of political rationality. It is political rationality again that causes the divergence between the position occupied by decision-makers within the *formal* hierarchies and the *real* strength of their bargaining position. Political considerations seem to play the most important role also in the chances of obtaining politically monopolized resources[12]. **Thus, *selectivity* based on political concerns determines extraction and redistribution along bargaining capacity that causes selectively soft budget constraints of those privileged**[13].

Let us just recall what Kornai states about the conditions and consequences of soft budget constraint: The budget constraint is soft when the long-term survival of an economic unit is ensured even when there is a sustained deficit. (*Kornai, 1980;* 123.). Budget constraints in traditional and

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[11] What provides the constraints in resource attraction and extraction will be described after some other characteristics of the net are discussed.

[12] Political considerations partially match those which Kornai cites as "deeper and more general" motifs of allocation *(Kornai, 1980;* 332–333.). These are: the drive for stability, the purpose of leveling incomes, the strengthening of the social role and weight of authorities that perform the redistribution.

[13] This statement is demonstrated empirically, concerning budgetary connections in Hungary (levies and subsidies). Analyzing the differences among large, medium and small enterprise's relative incomes after budgetary actions compared to the average of relative incomes will return to almost the same dispersion after budgetary actions took place. Therefore, budgetary actions had two functions *(1)* with the imposition of relatively high levies, to ensure enterprises to rely on distributive power *(2)* to reward the neady and /or deserving enterprises with a differentiated distribution of subsidies *(Csanadi, 1997*;. 112.).

reforming party-states are sufficiently soft (p. 330). Most enterprises dictate prices (mostly output prices) instead of accepting them. **The price is not an exogenous factor** for most of them. Even if prices are determined centrally, the authorities are strongly influenced by enterprises. The **tax system is soft:** the enterprise influences the construction of tax regulations, it may attain an individual exemption, or a moratorium, the tax is not collected systematically. There are **non-repayable state assignments** to investments, or subsidies either to compensate long-term inefficiencies or ad-hoc losses, or to provide ad-hoc incentives. The **credit system is soft**: it does observe orthodox conservative principles. The enterprise gets credit even if there is no effective guarantee that it can meet a repayment deadline from its incomes. Loans are not strictly connected to the production and sales capacity of the enterprise. Irregular repayments of due credit installments are tolerated.

Consequently, survival is not strictly dependent on the favorable ratio of sales to expenses. Even if expenses are persistently greater than returns, this is not a question of life or death. The technical development and growth of an enterprise will not exclusively depend on its internal resource accumulating capacity. The enterprise is not forced to adapt to price circumstances, since it is overwhelmingly price determinant in output. Therefore, it is not interested in adapting to input prices, or it may also become loss making, while expecting to be compensated somehow by the authorities instead of being closed down. Risks are shared with the state: if the enterprise's circumstances improve, its extra revenues will be partly siphoned away but if they deteriorate, the subsequent burdens are in all likelihood transferred to the state, to the purchaser or the creditor. The uncertainties are twofold: first, the uncertainty in prices and in purchasing and selling conditions; secondly, the uncertainty caused by the persistent redistribution of the enterprises' revenue. The enterprise cannot exactly foresee how much the state will extract and later redistribute. These consequences together will lead to an unconstrained search for inputs, since inputs may be purchased both from internal and external resources. In sum, the soft budget constraint does not bind the activity of the enterprise in the real sphere, in production or in purchasing or selling. The soft budget – as opposed to the hard one – will not be able to exert effective constraint. Enterprise behavior will be influenced by the anticipation of soft budget constraint. The extent of constraints is not uniform. Anticipation may diverge within the same system according to long-term experiences. The more it anticipates that its survival and growth depends exclusively on the amount of its expenses covered by sales revenues, the more it will respect

budget constraints, and the harder the constraint may be *(Kornai, 1980;* 322–327.).

It is easy to shed light on the structural background of the soft-budget criteria cited above: the capabilities to influence decisions and attract resources, the possibilities to be bailed out and to decrease uncertainty, survival unconstrained by market needs, efficiency and repayable loans, and consequently, the expectations for soft budget constraints. The chances for achieving those criteria and acquiring those capabilities will be higher for those economic actors who have feedbacks. The more feedbacks accumulated, the less they will have to respect budget constraints, consequently the higher will be their expectations of soft budget constraint.

With the IPS model – based on structural characteristics and the principles of operation stemming from these – we can argue that it is *not the soft budget constraint of enterprises in general that is the* characteristic feature of party-state systems, rather, its *selective incidence based on politically rational criteria*.

Accordingly, the uneven oportunity for soft budget constraint reveals simultaneously those in the given structure who, by lacking the properties that match the criteria of selective allocation, are **deprived of** the privilege of soft budget constraint. Thus, considered from the point of view of allocation, selectively soft and hard budget constraints are complementary. Therefore, "allocation" of **hard budget constrain is also selective**. The pattern of those with selectively **sof/hard budget constraints** – just as the pattern of selective redistribution – will also **reflect power relations** *(Csanádi, 1997)*. In the context of the IPS model, different extent of bargaining capacity is strictly connected with political power. **Consequently, the pattern of distribution of bargaining capacity reflects the pattern of the distribution of power**.

Table 2. provides a hint about the politically rational criteria of selective redistribution of privileges[14] and the characteristics of those privileged and those unprivileged. The criteria were: (i) those large, medium and small enterprises (I., II., III. respectively); (ii) enterprise managers having or not having elected party position at any level of the Party's decision-making

[14] Privileges that were taken into consideration during the period between 1970 and 1979 in the machine industry. These were the following: subsidies, medium- and long-term loans, key enterprises of long-term technical development programs, those selected out for closer statistical monitoring by the central authorities, those able to take over other enterprises, those purchasing raw materials directly from producers (thereby avoiding whole-sale), those selected to contribute with their own pre-plans to national level middle- and long-term plan.

hierarchy (P+ if had, P- if did not have that position); (iii) being the largest enterprise on the territory where the center of the enterprise is located (R+ if it was the largest, R- if it was not).

Table 2 **Chances of being selected and differences in bargaining capacity between enterprise groups with different characteristics in the machine industry, between 1970–1979 (per cent)**

Size-groups	P+R+	P+R-	P-R+	P-R-	P+	R+	R-	P-	Total
I.	90,5	74,3	64,3	40,8	84,0	85,0	54,8	46,0	68,1
II.	42,9	36,3	36,3	27,7	43,5	38,1	30,4	28,9	31,6
III.	–	–	–	1,4	–	0,0	1,4	1,4	1,4
Total	78,6	36,4	36,4	8,6	65,0	57,5	11,6	10,0	15,6
Number of enterprises	20	20	20	386	47	40	413	406	453

The numbers in the table reflect bargaining capacity by pointing to the ratio between received privileges in the given group of enterprises and the possibility of receiving all the considered privileges (received x number of enterprises in the group divided by all privileges x number of enterprises in the group). Compared to the average, privileges are allocated more frequently if the group possessed any one of the politically rational criteria mentioned above (I., P+, R+). They were even higher if any two of these criteria were present and reached almost 100% if all three criteria were met.

Results point to systematic selection according the degree of integration, strategic importance of the given SOE. The repetition of distribution along these criteria point to the intertwined economic and political spheres, and suggests systematic, politically rational selection; as a reaction politically rational drive and accommodation to expectations for those pleading resources (explaining drive for growth and for integration); it reflects an industrial structure within the net that is forming along politically rational selection criteria; and fixed paths of redistribution, along which selectively soft budget constraint prevails conforming the level of integration within the system. It also shows that economic behavior in party-states cannot be complexly investigated without taking into consideration the interconnectedness of politics and economy and the institutional background (the network) which produces that relationship.

If we rank the results of *Table 2* according to the opportunity to acquire resources and attach the characteristics of those who do or do not acquire privilege, we arrive at power distribution along bargaining capacity among the enterprises during 1970 and 1979 in Hungary *(Figure 5, see on next page)*.

One can conclude to the existence of similar selective characteristics in China concerning large state owned enterprises (SOEs), central, provincial, county SOEs, the different levels of the administrative hierarchy and among regions of a given level in the administrative hierarchy indirectly from the writings of Burns, 1986, 1994; Wildasin, 1997; Walder, 1995; Yngyi Qian–Gerald Roland, 1998; Sun, 1997; Huang, 1996; Perotti, 1993; Zou-Sun, 1996; Lin, 1989; Granick, 1990; Chen, C. J., 1999; Goodman, 1994**;** Xiao-qiang, 1998, *etc.*

On the basis of the structural characteristics described above, Kornai's arguments on soft budget constraints in party state systems are problematic on several ground:

a) By neglecting the structural motives that excite the scramble for quantity and expansion, Kornai avoids reflecting on the structural and operational specifics of party-state systems, which provide the very reason for such motivation.
b) Therefore, at the same time, Kornai also misses the structural reasons that explain the lack of such withholding considerations (economic reasoning) in consequence of the political rationality of behavior,
c) By neglecting structural characteristics and the dynamics stemming from them, he misses the chance to reveal those structural inequalities in bargaining capacity that will bring about selective redistribution and, through that, selectively soft budget constraints which point to the structural motives of the constant drive for further resources.
d) By neglecting the structural background of the selectivity in the allocation and the selectively soft-budget constraint stemming from it and behavioral motivations that conform to this structure, Kornai elevates a subjective motivation (the inherent desire for growth) into a systemic characteristic, instead of revealing the system's dynamics of self-reproduction.

The next section will address the general characteristics of the IPS model and consequently, comparability of the Chinese and Hungarian party-state systems on the basis of this model.

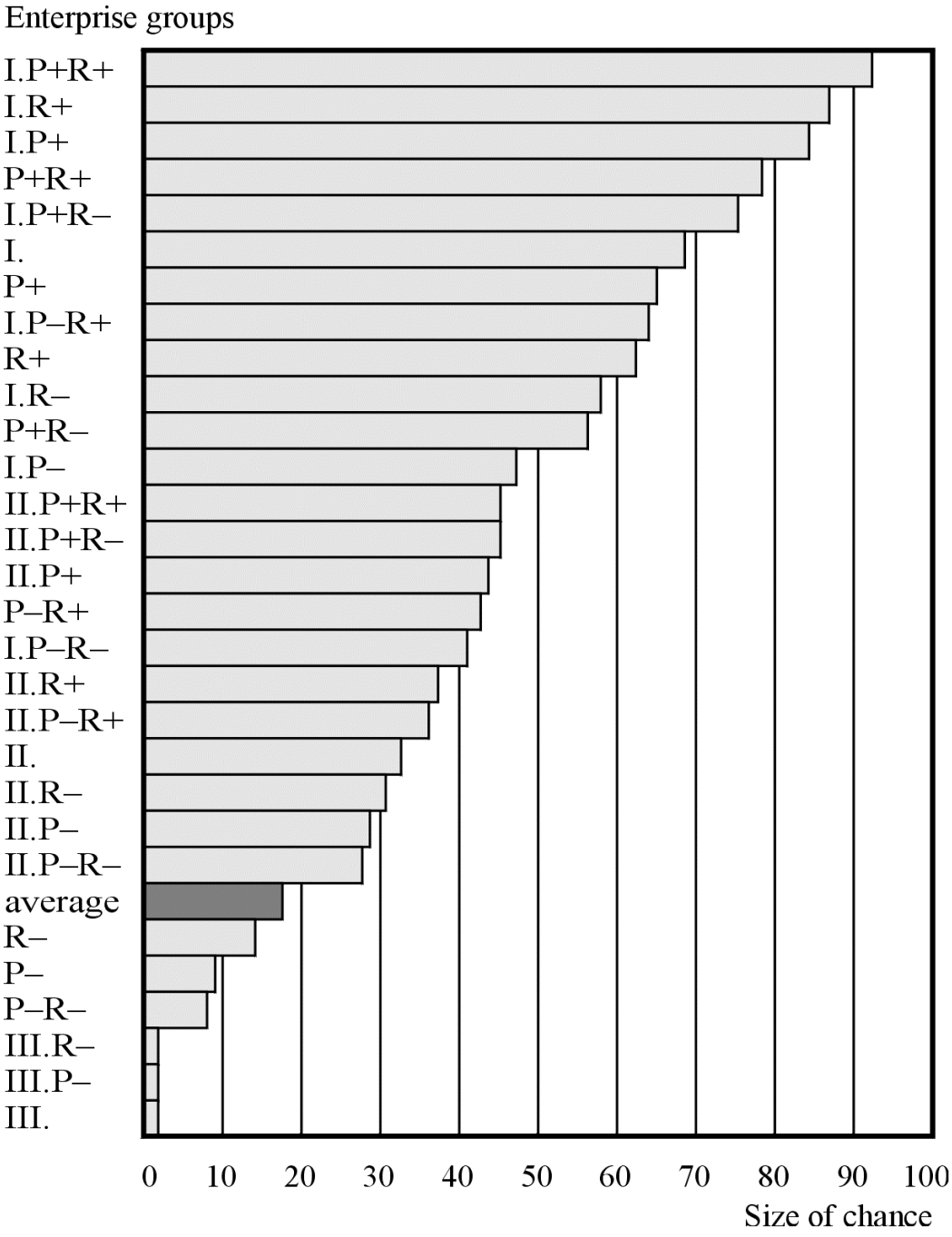

Figure 5 ***The distribution of power among enterprises by rank-ordering the bargaining capacity (chances) of the enterprise groups with different characteristics between 1970 and 1979 in Hungary (on the basis of*** **Table 2*).***

B. COMPARABILITY OF PARTY-STATES IN VIEW OF THE GENERAL PROPERTIES OF THE IPS MODEL

How do the above-described characteristics apply to the different party-states at different periods? Do differences in size, in location, developmental stage, historic period etc matter in this case? How can we solve the issue of differences in size, institutional structure, geographic location, operational specifics etc? Owing to its interactive structural and dynamic properties, the IPS model reveals several general characteristics of the party-state system that make comparison of individual cases viable:

I. The self-similar, fractal character, of party-state structures

The general characteristics of the IPS model flows from a specific feature of party-states. The basis of the self-similarity (on fractals in the nature see *Mandelbrot, 1983*) is that in party-states the main components, the main connecting principles of these components and their principles of operation are the same in several dimensions and so are the structural motivations stemming from them *(Csanádi* and *Lőrincz, 1992).* This self-similarity holds **in time**, that is, no matter during which period **(**e.g. the Soviet Union in 1939 *Fainsod*, *1958* or in 1985 *Bunce*, *1983**)*** the given party-state is analyzed, these characteristics will be there. Self-similarity will be discovered **in space** too, no matter which country one puts under microscope at one given period **(**be it Rumania (*Pacepa, 1989*), Vietnam (*Sun, 1997*)**,** Hungary (*Csanádi, 1997*) or China (*Qian and Xu, 1993*). Self-similarity will prevail even, concerning **different levels of aggregation (**a factory shop-floor, – *Walder, 1988;* a district – *Csanádi, 1997;* a county – *Grossman, 1983; Hough, 1969*, or a country and its federations – *Bunce, 1999; Blagojevic, 1999,* or even the Soviet Union and the Eastern Bloc countries – *Bunce, 1983*). One may reveal self-similarity at the reaches of the net even despite **the different state of condition (developing or disintegrating) of the party-state structure** (see Russia in 1929–31 *(Fainsod, 1958)* or Hungary in 1987–88 *(Csanádi, 1997)* or China in 1997 *(Qian-Wu, 2000)*.

For analytical simplicity, let us call as **fractal (self-similar) unit** any one of the complex structural assemblages at any level of aggregation at any time and any condition of the given structure. We shall call as sub-units the ones located within the given aggregation, and supra-unit the higher level aggregation where the unit is one of the sub-units. In consequence of the fractal properties it is only a question of approach whether a unit is analyzed as a sub-unit, unit, or supra-unit.

Based on this self-similarity the IPS model suggests that party-state structures and operation – as country level fractal units as well as

their different level aggregations at different times and state of condition – are comparable. This comparability will hold, despite the extreme differences in the size, geopolitical location, cultural specifics, historical traditions, state of development of the society in which socialism was formed. It will remain self-similar in the above context despite the perplexing differences in the historical conditions at the formation of party-states, in the developmental stage of these party-states, in the departure from the Stalinist model was commenced, in the actual international context of the time, in the world historical timing, in the characteristics of the institutional structure, and in the level of institutionalization, the level of decentralization of decisions.

II. The self-similarity in the dynamics of reproduction

Structural and operational self-similarities define self-similar dynamics of behavior in the process of reproduction.

The self-similar dynamics of reproduction in a fractal unit – within that, the dynamics of siphoning off and allocation of resources – will hold a**s long as the basic principles of the system's functioning remain.** Based on the characteristic interactive party-state network in any fractal unit, the simultaneous prevalence of *(i)* the ability to intervene, *(ii)* the compulsion to intervene, *(iii)* the power of expectations, and *(iv)* the simultaneous vested interest of the decision-makers in the maintenance of this situation, *(v)* the specific selectivity of redistribution (intervention) based on political rationality, resulting in selectively soft/hard budget constraints *(vi)* and the drive for adaptation to redistribution criteria. All these elements preclude the evolution of those factors which, at the reaches of the net (where the interlinking threads reach out), would be able to control or constrain the self-supporting mechanism of the politically monopolized system.

Until there are resources, the structural properties and the principles of operation will define the decision-makers' motivation in the fractal unit and by that ensure the cohesion and reproduction of the unit's structure. These dynamic characteristics are self-similar in any fractal unit – no matter the time, the space, the level of aggregation and state of condition (developing or disintegrating) of the party-state structure.

Based on the above-mentioned common (self-similar) structural background, and dynamic principles, and structural motivators stemming from them the IPS model suggests that the dynamics of reproduction of party-state systems are also comparable. This will hold,

despite the differences in the dynamics of the reproduction, and these include the consciousness of strategic choices by the elite and counter-elite, incremental versus radical reforms, the level of origin of reforms (from below or from above), the temporal over sustained restructuring in power relations, the centralized versus decentralized capacities of extraction and distribution of resources, and the primacy of political transformation over economic ones.

C. Structural background of divergences in operation and development paths

Self-similarities in the structure and in the principles of operation and in the subsequent behavior justify the common basis for the comparison of different party-states at different periods. But how can we solve the puzzle of similar characteristics and different outcomes? How can we explain why did they go through different ways of self-reproduction, used different instruments for that end and went to such dramatically different directions? Are these mere questions of political and economic strategies? The IPS model will reveal the structural background of the above differences within the fractal. This background enhances and constrains the possible strategies and outcomes.

I. The structural background of the wide-ranging structural varieties in party-states

We assume that the built-in inequalities in dependencies and interest promotion represent the self-similar character and principle of the distribution of power in the IPS model **in general.** The concrete, specific differences in the distribution of power within a fractal unit (no matter its level of aggregation) will take shape due to the:

(i) The rigor (in requirements, implementation, control, adaptation, tolerance and punishment of mal-accommodations and deviations) within the party or state hierarchies,
(ii) density, variety, level of origin, tightness of connection of the interlinking dependency threads, the fields that they overlap and the depth they reach within a given field,
(iii) the level of origin of the feed backs, their density, level of connection within or across hierarchies, the accumulation capacity of feedback and
(iv) the levels of decision-making capacity over the extraction and distribution of state-monopolized resources

The structural combinations of the variations in the rigor within the hierarchies, the interlinking dependency threads, the feed-backs and the level of decisions over the exploitation and redistribution of resources will provide the differences in the distribution of power.

For example, the distribution of power in Hungary before and after 1956 revolution was drastically different, and so was in its construction or disintegrating period (Csanádi, 1997)*. Between 1949 and 1953 its party and state structure was very rigorous. Lacking alternative evaluation, accommodation and performance of subordinates were subjected and exposed to voluntaristic judgements. Tolerance of non-performance depended on individual verdicts. Decision-making and interlinking threads were centralized and there were few feedbacks. Here is how a ministerial official looks back on that period:*

"I was supervising military hardware production and was thus lord over life and death. Everything depended on us. Those were the good old days! One was good looking, young, and had plenty of power. People of the status of H. (the manager of one of the largest enterprises in Hungary - M.Cs*.) would come on their knees, crawling on their bellies for me to approve their plans as fulfilled... I generally did not trust in such things and this had its rewards. Three teams of enterprise leaders went to jail from under me for smaller or bigger mistakes of this kind, while I remained firmly in my place. My method was that I would not approve a plan as complete solely on the basis of supplied information and without physical inspection. I would always visit the enterprise and would verify plan fulfilment item by item."* (Department of Planning, Ministry of Metallurgy and Machine Industry, 1977).

After 1956 until 1963 the rigor of the structure was decreased, decisions in the party transferred to committees, interlinking threads became relatively more decentralized and feedbacks from the economic sphere evolved (Csanádi, 1997).

Therefore, the IPS model embraces and reflects individual characteristics of a given country as a fractal unit or that of any administrative sub-division within it, as well as that of their institutionalized conglomeration. These distributions may **vary in time, in space, by level of aggregation, and in consequence of the state of condition (state of development, stability or disintegration) of the structure**.

For example, great amplitude swings in the distribution of power may be tracked between the beginning of the 1950s until the 1958–59, when a highly centralized and strictly interlocked structure evolved (Barnett, 1967; Huang, 1996; Burns, 1989)*, and from 1958-59 when the decentralization of interlinking threads and economic jurisdictions took place during the Great*

Leap Forward (Barnett, 1967; Bachman, 1991; Naughton, 1987). *This was followed by a recentralization in 1961–65* (Huang, 1996)*, and the re-decentralization of the interlinking threads and economic discretion over enterprises and practically the abolition of central state and party apparatus while increasing the political rigor during the Cultural revolution between 1964 and 1976,* (Huang, 1996; Burns, 1989; Barnett, 1967; Hong Yung, 1978; Lee, 1978; MacFarquhar, 1972, 1983) *and the short-lived re-centralization efforts after the death of Mao in 1978* (Huang, 1996; Naughton, 1996; Qian and Xu, 1993; Lieberthal, 1995; Burns, 1989).

Differences may be revealed not only in time but also in different aggregations: at system level (Qian-Xu, 1993; Yin *and* Haines, 1997; Manion, 1985; Burns, 1988; Naughton, 1997)*, at the level of different regions* (Oi, 1985, 1992, 1995, 1996; Steinfeld, 1998; Walder, 1995)*, at enterprise level* (Chamberlaine, 1987; Child and Xu, 1991; Bolton, 1995; Granick, 1990), *or at the shop-floor* (Walder, 1988).

Those variations will last longer that accommodate to the individual characteristics of the given fractal unit: to its size, historical and cultural traditions, level of institutionalization, geopolitical location, level of aggregation, level of industrialization, level of economic development and social structure etc. Strategies of restructuring the net are constrained and enhanced by those factors. The varying specifics do not harm the self-similar (fractal) character of the basic elements, their connecting principles and their main principles of operation. Neither they affect the motivations enhanced by the general operating features of the structure.

Thus, based on the IPS model, structural differences in the specifics of the distribution of power in party-states are also comparable.

II. Interaction of fractals and the influence of structural specifics

How do fractal units interact? To what extent are interactions influenced by structural specifics? How these latter influence the dynamics of reproduction? Let us now take both the fractal character and internal varieties of distribution of power into consideration. Let us take a fractal unit from the point of view of self-reproduction. In this respect, selective resource allocation will show the **unit's individual resource attracting capacity.** However, the budget constraints of a unit will not only depend on the unit's capacity to attract resources, but also on its e**xtracting** capacity **from within** its confines[15]. This latter capacity is composed of **two main**

[15] We shall include in the picture the unit's capacity to create extra resources by borrowing money from banks. This may both mean extraction or attraction,

factors: first, the extent of **decision-making power (discretion) allocated** to the unit to extract resources. The extent of this allocation, as the distribution of other privileges, depends on the attracting capacity of the unit; that is, its size and its feedbacks (integration). Second, extracting capacity depends on the specifics of the distribution of power within the unit. Different extent of bargaining capacities of the sub-units within the unit furnish the specifics of the given fractal unit. Specifics will allow or inhibit further resource extraction and influence possible outcomes.

> *That is why the extent of extraction capacity of units may vary. For example, the extraction capacity in Hungary until the middle 1980s was concentrated exclusively in the central authorities, while in China this was partially decentralized to the provinces and lower levels of the administrative hierarchy. Meanwhile, allocation capacity in both countries was partially decentralized, though it was to different extent.*

Discretion over extraction or allocation, as other privileges, may be also withdrawn. This depends on the resisting (menacing) capacity of the unit. The conservation of these rights translate into personal stakes for those privileged by them. By the allocation of extracting discretion, their own redistributive potential may expand as their capacity to resist. This is the reason why it is hard to reverse the tendency towards decentralization in these jurisdictions. If withdrawn, redistribution potential may contract and capacity to resist weaken.

Reversal efforts may be better resisted by those that have more bargaining capacity. Consequently, reversal, that may be taken as extraction, will be selective and structure conforming.

> *Such were the repeated efforts to centralize resources at the beginning and end of the 1980s in China and their limited success (Naughton, 1991, 1996). Similar factors drew central authorities to exert serious political pressure and compensating offers to alter the structure and discretion of resource extraction between the center and the provinces in tax reforms.* (Interview, 2000; Huang, 1996; Sun, 1997; Shu-ki *and* Yuk-shing, 1994.)

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depending on whether the loaner is within or outside the unit's confines respectively. If outside, loans may be attracted from higher level aggregations or from outside the net. Likewise, fund raising within or outside the unit are factors of extracting or attracting resources respectively. Also the creation or allowing the creation of resourceful units outside the net means attraction (though not necessarily from above the unit), with the purpose of increasing the possible subjects for extraction. For the time being we shall neglect the direct money printing capacity which is allocated to the central level only, though in China before 1994 local governments had possibility of increasing directed bank loans unlimited *(Wong, 1991; Qian* and *Weingast, 1997; Bachman, 1991,* p. 222).

Therefore, **allocation (redistribution) will be selective along the different extent of attracting capacity of the units, while extraction will be selective along the different resisting capacity of the sub-units.** In practice, a unit will possess both attracting and resisting capacity as pleader and allocating or extracting capacity as intervener.

– The larger the unit, the more and higher intra- and cross-hierarchy feedbacks are accumulated and the closer the interlinking dependency lines to the unit's aggregation level, the stronger will be the unit's resisting (attracting) capacity, and therefore, the weaker the supra-unit's extracting capacity.
– The smaller the sub-units, the less and lower intra-and cross-hierarchy feedbacks they possess, and the higher the interlinking dependency lines depart from the sub-unit's aggregation level, the fainter will be the sub-units resisting capacity; therefore the stronger will be the unit's extracting (enforcing) capacity.

Thus, within the confines of the IPS model, interaction of fractal units and the influence of structural specifics in the interaction are comparable.

III. Interactions, budget constraints and different distributions of power in the process of reproduction

What impact the different extents of extracting over attracting capacity will have on budget constraints and how will this influence the behavior of the unit?

a) At one extreme, let us suppose that the unit will be 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"[16]. Success depends on the extent of the unit's resource attracting capacity from the higher-level aggregation.

On the one hand**, the higher the unit's capacity to attract, the softer will be the unit's budget constraint**. The unit will do its utmost to acquire or maintain the properties that attract resources (growth by investment,

[16] In case of the final aggregation, if no extraction is possible "open door" policy will be declared in order to attract further resources. Leaping out of the net has its consequences in adaptation.

takeover and accumulation of feedbacks) and strive for the decentralization of the interlinking threads. Lacking extracting capacity, it will strive to increase its size, and that of its sub-units will become indirectly important. The importance will emerge from the point of view of enlarging its economic potential to enhance the unit's bargaining capacity. This may be achieved by bearing or acquiring sub-units that may be capable of menacing the stability (internal supply, non-fulfilment of contingencies, political tensions, and so on) of the unit as a whole or that of higher level aggregations[17]. This is the reason why these units strive to increase the economic potential of SOEs located in their neighborhood or for the allocation of jurisdiction over larger SOEs, subordinated to the higher level aggregation.

> *That was the one of the reasons why local party organizations strove for the allocation of the headquarters of large enterprises or new centrally planned investments under their nomenklatura responsibility* (Csanádi, 1997). *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* (Sun, 1997, *p. 10.*; *referring to* Lin, Cai *and* Li 1995; Naughton 1995; Walder 1994 and 1995).

On the other hand, the lower the unit's attracting capacity, the harder will be its budget constraint. The extent of the **attraction capacity of the unit may tend to zero**. This is the case if fractal units do not meet selection criteria of allocation.

> *One of the telling examples is that inefficiency of enterprises in Hungary was inducing selective windups. The rate of inefficient large enterprises to the small ones was overwhelmingly much higher than the rate of windups of*

[17] The phantom strength – and through this, the bargaining capacity – of the regional economic policy leadership increased, the larger were the enterprises that had their headquarters there. Indeed, the regional leadership could exercise greater influence in receiving privileges with this weapon. Similar results were achieved in the distribution of central funds affecting the region, in labour force policy, in regional development, in the status of the region, and so on. For in this case (having larger enterprises in these regions) it was possible to obtain higher- level protectors. The arguments relating to the factors endangering stability also carried more weight regardless of whether the given region was a county or a district. Therefore, it was in the interest of the regional party organizations to support the growth of these enterprises and obtain as many feedback opportunities as possible. At the same time, it was also important that they be able to exercise an ever-greater level of influence within these enterprises in order to keep them under their own control. One way of achieving this was to incorporate their leaders into the ranks of the local political elite.

large enterprises over small ones. Bailout was much more frequent in case of the large than small SOEs (Csanádi, 1997). *Similar phenomena may be traced in China after 1984 concerning loss-making SOEs (*Shu, 1998 *p. 393 cited by* Zou *and* Sun, 1996*, p. 11–12). They argue that the less profitable the more bargaining capacity with the center or the banks). Not only enterprises but regions and bail-outs point to similar selection criteria* (Wildasin, 1997 *cited by* Qian-Roland, 1998 *p. 1444).*

With harder budget constraint, when extraction capacity is not given, survival efforts will force units to "channel in" and compensate their lack of attracting capacity by joining, or indirectly profiting on those that do have a bargaining capacity.

This was experienced in Hungary in the 1970s (Csanádi, 1997) *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 in consequence of their better bargaining position.*

Moreover, no matter if budget constraints are hardening or softening, if resource attraction is the unique opportunity actors will not be interested in leaving the net. These structural conditions will project the motives for behavior and the tendency of the struggle in the reproduction process.

For example, despite of 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 these actions begun to mushroom. From the end of the 1980s until the mid 1990s the 50 largest enterprises in the processing industry disintegrated into more than 690 units (Voszka, 1997).

b) The opposite extreme situation is when discretion over extraction and distribution is given while no resources are allocated from above**.** In this case**,** budget constraints will depend solely on the unit's capacity to extract resources from within itself. Success 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. The higher is the resisting capacity, the harder will be the unit's budget constraint. 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. Therefore, the unit strives for further centralization of the interlinking threads within its realms and for more, smaller, and less fed-back sub-units with less bargaining (resisting) capacity.

This might have been one of the reasons why at country level – opposite to the previous period – efforts to break up (instead of further developing)

large enterprises in Hungary were the main political issue in the middle of the 1980s. That was the period when resources from outside decreased radically, since Western loans were to be repaid and extractive capacity of the system was decreasing at a large pace. Restructuring though had limited results because large enterprises with accumulated feedbacks could resist (Voszka, 1988). *Concerning China, this might have been the reason why Chinese SOEs subordinated to local governments enabled with extracting capacity did not grow to such an extent* (Huang, 1996; Naughton, 1996) *as in Eastern European countries, where extractive capacity was allocated to the central authorities.*

In consequence of the fractal 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 an other 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 different or similar patterns of power concerning the unit and within it.**

For example, Hungary within the Soviet bloc had resource attracting and extracting capacity, while within its confines resource extraction and distribution was mainly reserved for the central institutions. Resource extraction and redistribution though, in consequence of the given distribution of power (the bargaining and resisting capacity of the resourceful sub-units) from time to time reach their limits. On the other hand, China as a whole, after the break-up with the Soviet Union in the early 1960s until the beginning of the 1970s had practically very low resource attracting capacity (Lieberthal, 1988). *Meanwhile extraction of resources at the time of the Great Leap forward or the Cultural Revolution was extremely decentralized with a distribution of power (tight interlinking threads) that allowed the extraction of resources without the capacity of the sub-units to resist* (Barnett, 1967).

The combination of different or similar extent of the attraction and extraction capacities will provide the extent of soft/hard budget constraint of the unit. Motivations and strategies at a given period are instigated by the projected and experienced extent of the softness or hardness of the budget constraint. Behavioral strategies are shaped by expectations concerning extracting (allocating) and attracting (resisting) capacities as estimated by past experiences and current judgements[18].

[18] This calculation depends on the complex interplay of conditions: the extent of actual

Experienced success or failure of behavior is defined by the actual position of distribution capacity of the given unit, which defines its position toward its sub-units. The harder the budget constraint, the weaker is the unit's distribution capacity and its position toward its sub-units. The softer the unit's budget constraint, the stronger is its distribution capacity, and its position towards its sub-units. **Therefore, a unit will strive for stronger attracting, resisting, allocating and extracting capacity.**

How can budget constraint be defined at an interacting fractal unit? T**aking fractal, internal variations of power distribution and interactions into consideration a new concept of system- and structure-specific budget constraint is introduced within the IPS model. This specific budget constraint that we call IPS budget constraint is defined by several factors:**

a) IPS budget constraint is not only generally soft *(Kornai, 1980),* but selectively. Therefore, budget constraints in party-states may be hard too. This selectivity is defined by the bargaining capacity of a unit that presuppose properties that match (or do not match) with the politically rational priorities of the distributor.
b) Moreover, not only allocation, but resisting capacity to extraction will define the unit's relationship to the allocator. Resisting capacity is also selective, depending on the unit's resources to challenge the stability of the allocator.

The combination of attracting and resisting capacity of a fractal unit will define its bottom-up balance of resources. However, not only the unit's bottom-up interactions matter. Budget constraints are shaped by the unit's **top-down interactions** as well:

a) Resources of a unit depend also on its capacity of extraction that is defined by the resisting capacity of its sub-units according to the distribution of power among sub-units in relation to the unit.
b) Moreover, not only extraction, but the unit's resource allocations (the size of which is shaped by its capacity to attract from above, its allowance to distribute, and success in extracting from within its confines) will define the unit's relation to its sub-units. Allocation of the unit will occur according to the selective attracting capacity of the sub-units.

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openness of the unit, political opportunity within and outside the unit, perception of internal stability and legitimacy (leader's position, internal fights within the elite, sense and sensitivity for tensions, tolerance of tensions), external position (recognition from outside, geopolitical location, political opportunity, tolerance toward the unit's activity) the unit's judgement of its own and adversaries phantom force and projected risks on the basis of the cited factors etc.

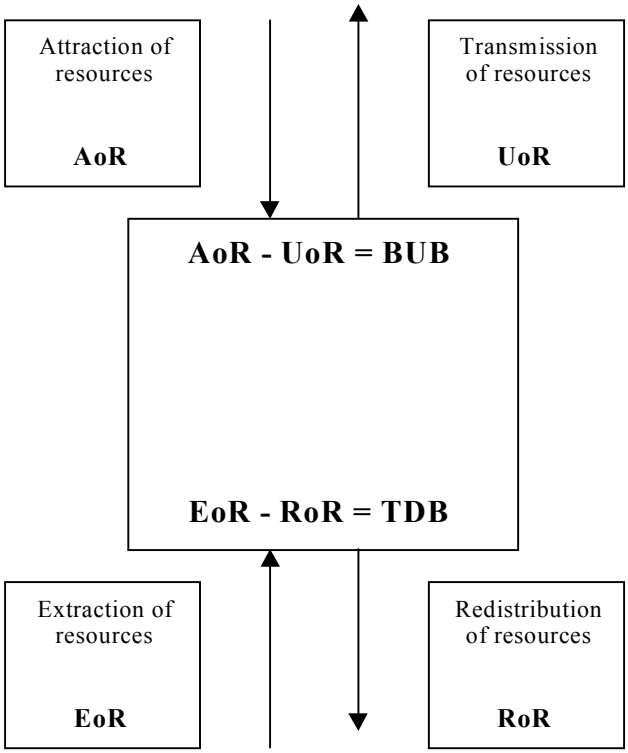
The combination of the unit's extraction and redistribution capacity will furnish its top-down interactions and define its top-down balance of resources.

The combined (IPS) budget constraints of a unit will 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. Selectively 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 also structure-specific.

Let us formalize the above arguments. *Figure 6 (see on next page)* relates the interactions concerning one unit as pleader bottom up (resisting and attracting) and as intervener (allocating and extracting) top down.

Taking this concept into consideration, an infinite variety and extent of budget constraints may evolve as a consequence of power relations and interactions during the process of reproduction. Since AoR may be larger, smaller or equal to **UoR,** therefore**,** bottom-up balance (**BUB**) may become positive, zero or negative. The same is true of **EoR** and **RoR.** Therefore, top-down balance (**TDB**) may become positive, zero or negative too. Consequently, the combination of the two balances will reflect the extent of softness or hardness of the budget constraint. Let us write down these combinations:

AoR - UoR > 0 (if AoR > UoR)
AoR - UoR < 0 (if AoR < UoR)
AoR - UoR = 0 (if AoR = UoR)
EoR - RoR > 0 (if EoR > RoR)
EoR - RoR < 0 (if EoR < RoR)
EoR - RoR = 0 (if EoR = RoR)



Notations:
Bottom up:
AoR = Attraction of Resources **by** the unit
UoR = Uprooting of Resources **from** the unit
Top down:
EoR = Extraction of resources **by** the unit
RoR = Redistribution of Resources **by** the unit

Key:
BUB: Bottom-Up (BU) balance
TDB: Top-Down (TD) balance
BUB-TDB: Total balance that determines budget constraints

Figure 6 ***Interactions of a (fractal) unit of the fractal structure giving rise to various types of budget constraints***

The extent of complex soft/hard budget constraints will evolve in the following way:
(AoR - UoR) + (EoR - RoR) = BUB + TDB = IPS Budget constraint (BC)
Table 3 shows the variations in the extent of soft/hard budget constraints considering the balances of the BUB and TDB:

Table 3 **Soft/hard budget constraint variations in the Interactive Party-State model**

BC	BUB=0	BUB >0	BUB <0
TDB =0	0,0	0,+	0,-
TDB >0	+,0	+,+	+,-
TDB<0	-,0	-,+	-,-

Therefore, IPS budget constraint is a combined, multi-layered, structure-specific consequence of interactions during the process of self-reproduction. The extent of net attracting over net extracting capacity of a unit will determine the extent of the combined softness/hardness of its budget constraints (IPS BC). The extent of softness/hardness will induce the **variety of motivations.** However, behind the different or even similar extent of IPS budget constraints lie the structural specifics of the given unit. **While the extents of budget constraint define motivations, structural conditions of the unit (shaped by the pattern of power distribution at the unit's aggregation and the distribution of power within the unit) will define and shape the varieties of possible behavior and strategies during reproduction. Accordingly, not only budget constraints, but also behavior will be structure-specific.**

Motivations may be directed to keep or to modify status quo. On the one hand, except – -, 00, 0 – any of the above-described combinations may be positive, meaning soft budget constraint. In this case reproduction at a given period does not meet structural constraints. The extent of softness depends on the positive term in the expression. The softness of budget constraint justifies the techniques implemented, therefore there are no reasons to change only reasons to strive to maintain or improve the status quo.

On the other hand, with the exception of ++, +0, 0+ and 00 any of these combinations may be negative, depending on the extent of the negative term in the equation. Even those cases pointed out as exceptions, may tend to zero. But all of them may tend to, or acquire a different extent of hard budget constraints. **When mechanisms of reproduction meet structural constraints motivations are driven to change the status quo.**

Decision-makers do not aim directly at having soft budget constraints, but to acquire resources in some way of another. The dominant conditions determined by the current bargaining position of a unit, or sub-unit within a fractal that force the kind of adaptation and

motives. If resources may be acquired though enhancing bargaining position or exerting pressure through the net than that will be the chosen way. If resources are acquirable only through producing marketable values and by that becoming profitable, than that will be the chosen strategy.

IPS **b**udget constraints become hard when there are no further internal and external possibilities for the siphoning-away or attraction of new resources within the given power distribution. In these cases the self-supporting mechanism meets structural constraints. The cohesion of the system (or smaller unit) weakens and the power relations change either permanently or temporarily (those privileged and those privileging weaken). These conditions create the motivation to restore the cohesion of the structure. **To that end, each combination induces a variety of possible actions according to expectations and will result in a variety of outcomes according to structural constraints.**

Taking fractal character into consideration – hard and/or soft budget 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[19]. Therefore, units on a formally equal level of aggregation or different aggregations in 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.

> *In Hungary for example even after the 1968 reforms resource extraction and redistribution capacity was appropriated only to central authorities, while the distribution of power was relatively decentralized, with high level of bargaining capacity of fed back SOEs* (Csanádi, 1997). *In China after the mid 1980s the extraction and redistribution capacity was decentralized to local governments, (though the extent of it was selectively distributed* (Lin, 1989). *The distribution of power took very different shapes within the fractal units on national level aggregation, within and among province level and at different hierarchical levels of the administration within them* (Zhao Xiobin, 1996, Huang, 1990). *The different shape of the power structure and therefore, different extracting capacity was partially due to the selective distribution of SOEs among provinces and under different ranks of administration, the distribution of SOEs within one formal*

[19] They may be even present simultaneously in one unit, depending on the strength of the field the interlinking lines connect or avoid. E.g. in certain party-states the agriculture has hard budget constraints while the industry has soft.

level of jurisdiction, the number of TVEs (township and village enterprises) in the region, the FDI (foreign direct investment) etc.

Both hard and soft budget constraints may be present temporarily or for sustained time within the above variations. Status quo may change if either bargaining capacity of the unit changes bottom up, or toward its sub-units top-down, and therefore extraction and attraction of resources meet structural constraints. Soft budget constraints will be temporary (turn to hard) also if the maintenance of status quo exhausted resources in the unchanged structural conditions and further resource acquisition is needed to eliminate the resistance of the internal structure.

Hard budget constraints will be temporary, if power relations are restructured and resistance of sub-units discontinued. Restructuring of power relations may be avoided and hard budget constraints will turn temporary soft if further resource attraction becomes available from outside the net (e.g. opening up to acquire foreign loans and techniques). But this fortunate situation comes to an end, once loans and interests have to be repaid. (concerning Hungary see *Antal, 1979, 1983, 1985*). This time will arrive under worse structural conditions from the point of view of budget constraints, since foreign loans to this point have been granted to maintain the status quo. This 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.

Thus, within the confines of the IPS model, interactions, and specifics of the development of structure conforming budget constraints during self-reproduction in party-states are comparable.

IV. Structure-specific behavior and adequate mechanisms of reproduction

Do structural specifics influence the length of the period under which cohesion may be restored? Does restructuring require (allow) instruments irrespective of structural specifics?

We argue that b**oth the mode and the time-lapse of removing the obstacles to the reproduction mechanism and, thereby, recreating the cohesion are structure-specific**. In other words, the **specific structures will induce adequate mechanisms of reproduction through specific instruments for resource attraction, extraction and redistribution.**

The fainter the capability of sub-units to resist and influence through the dependency threads and feed-backs, the bigger 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 **forceful restructuring by** exerting political pressure and/or implementing campaigns. Forceful restructuring, in consequence of the adopted restrictions and re-centralization of resources and jurisdictions, will result in **resource-redeployment.** These are for example**:** changes in the product-structure, merging of enterprises, amalgamation or disaggregation of agricultural co-operatives, reorganization of economic management authorities, the so-called "off budgetary" and "extra budgetary" revenues in China (*Huang, 1996; Wu* and *Qian, 1999; Lin, 1989*), forced exports for the sake of funding imports, forced fund raising, forced capital raising, forced workers' share *(Smyth, 1998)*, forced acquisition of state bonds *(interview, 2000)* etc.

The extent of pressuring capacity will influence the length of the period of hard budget constraints and the threat of incohesion. The greater the extent of pressuring capacity, the shorter the period of hard budget constraints and with that, the lack of cohesion. Conversely, the fainter the extracting capacity within a given unit, the smaller the unit's capacity to apply successfully the former resource extracting instruments.

The longer its period and the higher the expectations for hardening budget constraints, and with that, the lack of cohesion, the stronger the unit's drive to find other ways to reveal or create resources to restore the reproduction process and status quo. **When and where forced restructuring does not work, reforms are instruments for such purposes. In this respect, reforms, instigated by longer-term budget constraints are, in a given distribution of power instruments to acquire resources and to recreate the structure's cohesion**.

The above way of defining reforms requires a structural approach that analyzes the process of self-reproduction. But a structural approach is not the sole way to define reforms. Reforms may be classified along other analytical paths for example, according their focus**.**

For example, a reform of ***economic policy*** *(changes in regulators, new enterprise management methods, the introduction of a job application system); a reform of the* ***instruments of economic management*** **(***shifting from mandatory plans to indirect regulators, or from bureaucratic coordination to market co-ordination); a* ***reform of the institutions in the management of the economy*** *(the creation of new economic management authorities and spheres of influence and the transformation of others); a reform of the* ***economy's institutions*** *(enterprise reorganizations, break-ups, the possibility to close down enterprise units, the possible creation of subsidiaries; a reform of the* ***pattern of economic activity*** *(private plot*

cultivation, supplementary branches, second economy, the possibility to create small business); and a reform of the ***institutional system of politics*** *(the introduction of multi-candidacy in parliamentary elections, and in the election of party, CYF (Communist Youth Federation in Hungary) and trade union secretaries, the restriction of the mandate of those elected for a limited duration, the restriction of re-election possibilities, the decentralization of the nomenklatura system). Such reforms rarely appeared in isolation from each other and their character was shaped according to the type that dominated. The classification from the point of view of focus does not exclude that these reforms have their structural background, moreover, structural impact.*

From the point of view of the analysis our approach remains structural, focused on the process of self-reproduction. We shall enumerate from this point of view different kinds of reforms. The focus is on whether the applied instruments will create resources inside or outside the network according to their capacities of restructuring power relations. Thus, there are reforms that **remain within the framework of the unit and those that leap out of it**.

Let us call resource mobilizing reforms those actions that remain within the confines of the net and directly reveal formerly hidden resources, or "disentangle" formerly possessed interest-promoting channels that indirectly reveal resources. For example, extra resources are mobilized within the net through the introduction of normative, macro-measures: a quasi-world market price system, profit-sharing or income-taxation system. Extra resources within the net are mobilized also if burdens are reallocated. This may take place either by decentralization (SOEs from central subordination to that of province or county in China), or pressures for centralization (e.g. social responsibilities – housing, healthcare, pension – from Chinese SOEs to local governments), or making selective allocation stricter (e.g. the centralization of import decisions in the late 1970s in Hungary), or decreasing the attracting capacity of sub-units by weakening their feed-backs (e.g. merging and abolishing branch (line) ministries and depriving them of their interest enforcing capacities and functions, and for the same reason decentralizing the nomenklatura of enterprise managers from the ministry to enterprises themselves and local party organizations), weakening the bargaining capacity of the sub-units themselves (e.g. disbanding large enterprises), or even by transferring burdens outside the net (e.g. privatization of SOEs) and thereby decreasing the number of sub-units striving for allocation.

Let us call resource creating reforms those actions that partially or completely leap out the net to acquire new resources. If structural change within the net is not possible, because of the strength or the lack of

resourceful sub-units, the intensity of the drive for resources forces the creation of resourceful units outside the reaches of the net, or the attraction of alternative resources partially outside of it. The higher the expectations for harder budget constraints the more intensive the pressure to leap out will be. Extra resources are created by facilitating the infiltration of resources from outside into the net (e.g. TVEs in China, second economy in Hungary, or FDI in joint ventures, or transforming SOEs into shareholding companies, or listing them on the stock exchange). Extractable resources are created by letting increase the number of resourceful units outside the net (e.g. the enhancement of conditions for domestic and foreign private ventures, private plot cultivation, the abolishment of collectives and cooperatives, the alternative consequences of the privatization of SOEs[20] etc).

We argue that resource redeployment and reforms demonstrate that resource acquiring instruments are structure specific. Moreover, resource mobilizing and resource creating reforms demonstrate that the kinds of reforms introduced are also structure-specific. Implementation depends on the decision-making capacity, the distribution of power within one unit and the extent of hardness/softness of IPS budget constraints of the given unit at a certain period. Even strategies are strongly influenced by the expectations, learned and experienced consequences and projected risks etc.

According to the modifications of the structure and to the extent of hardness/softness of the IPS budget constraint at different periods, these instruments may be also alternatively implemented. **Successful implementation** of one or another though is **primarily structure conforming** and driven more by the force of constraints than by strategic choice. However, despite its alternative use concerning a whole unit, every chance is utilized on partial fields within a unit where the bargaining and resisting capacity is weaker. There are constant efforts to take the easier path first *(Naughton, 1996),* by reorganizing, or exerting pressure, and only if these prove to be unsuccessful (counter-selective according to the interests of the sub-units), will the other instruments be used.

For example, in consequence of the decentralized extracting capacity to the units and resisting capacity of the units as sub-units in a higher level aggregation, resource redeployment efforts from higher level aggregation

[20] According to the utilization of resources earned from privatization resources may be re-deployed if used for the subsidization of remaining SOEs, or social causes, and may conclude in resource creation if invested in joint ventures or infrastructure or shares in private enterprises etc.

*will be counterproductive. This was the case of the short-lived resource centralizing austerity measures in China in the beginning of the 1980 and at the end of 1980s – beginning of 1990s (*Naughton, 1996; Huang, 1997; Interview, 2000*). Similarly will resource redeployment efforts be counterproductive in a structure where resisting capacity of sub-units is unharmed (see for example the referred failed efforts concerning the partition of large enterprises in Hungary at the beginning of the 1980s* (Voszka, 1988*).*

The lower the expectations for sustained hard budget constraints, the more frequent resource mobilizing reforms. Accordingly, the higher the expectations for sustained hard budget constraints, the more frequent additional resource creating reforms. No reforms occur when resources are available within the given structure (whether through allocation, domestic or foreign loans, raising funds, printing money, or the capacity of forceful exploitation of resources from within).

In a complex fractal structure different instruments of resource acquisition may be implemented and different kind of reforms may take place according to structural specifics. This may occur at the same period both at different levels of aggregation, or at different units at same level aggregations and in different times. Therefore, parallel to the different kind of reforms, resource extraction through forced restructuring may also occur at different units of an aggregation or at different aggregations of the same level or at the same unit at different times.

These instruments may be **implemented sequentially or simultaneously in time, in space on the same level aggregations, and in different level aggregations and in different state of condition of the given power structure**.

This also means that **no positive or negative** connotations should be attached to reforms from above or from below *(Liu, 1992; Lin* and al., *1995; Naughton, 1994)*. First, this is because "above" and "below" in a fractal structure are relative concepts, since according to the level of aggregation of the fractal, reform drives may emerge either from above or below. Second, this is because the mode depends on the structural properties and condition of the unit and not on its locus in the structure.

A good example for this statement is that until 1994, decisions over fiscal and monetary discretion were decentralized to provinces to such an extent that even money printing was possible in the form of credit extension. The leading positions of local branches of the National Bank were delegated to the nomenklatura responsibilities of the local party organizations, local branches were successfully forced to extend credit. Therefore, economic behavior from below caused an uncontrollable price

and investment boom overheating the economy (Huang, 1996, Lin, 1989). *The 1994 reforms took back this discretion: provincial level branches were abolished and regional level units were formed. Another example is that of the similar behavior of SOEs within the politically rational environment of the net.* Groves (1994) *found that the increased enterprise autonomy in their sample of 769 SOEs for 1980–1989 raised worker's incomes but tended not to increase profits or lower the state subsidies (referred by* Qian, 1996 *p. 444.). Similar arguments may be raised on the investment hunger of enterprises insensitive to interest rates* (Xiao-qiang, 1998) *or on the behavior of Township and Village Governments (TVGs), that exercised property rights over TVEs and profits were directed to TVGs who used this for the improvement of the local life, rather than reinvesting in successful enterprises or decreasing depts.* Smyth, 1998) .

The same holds for the "decentralization" of decisions in general as such, without structural connotations.

*For example, when the Chinese communes were given extraordinary decision-making power over resources in the 1950s, they did not behave in market-like fashion. Instead, the commune took over ownership of all the important remnants of private enterprise, except private homes; these included not only the peasants' private plots and animals but also family cooking utensils. Meals took place in public halls. (*Barnett, 1967 *p. 341)*

Thus, within the confines of the IPS model differences in structure-specific behavior as well as adequate instruments of self-reproduction in party-state systems are comparable.

V. Impact of different mechanisms of self-reproduction on the party-state structure

Let us recall some former statements. The different attracting and extracting enforcing and resisting capacities, and, accordingly, the different kinds of hardening budget constraints will incite structure-conforming behavior and structure conforming instruments of resource acquisition. The stronger the resisting capacity of sub-units, the more frequently the unit will run into the barriers of resource extraction in the given distribution of power, and the harder it will be to locate and extract new resources with the restructuring of the net. The fainter the resisting capacity, the more seldom the unit will run into barriers to resource extraction and the shorter the time lapse during which cohesion is regenerated. The more decentralized the extraction capacity and the stronger the resisting capacity of sub-units the more frequently will the unit hit the barrier of reproduction within the net and the

stronger will be the drive to create resources outside the net. Conversely, the more centralized the extraction capacity and the fainter the sub-units' resisting capacity the more seldom the unit will hit the barriers of reproduction within the net and the stronger will be the drive to reveal resources within the net. **No reason neither force generates reforms if resources may be extracted by redeployment. Similarly, no reason neither force generates reforms that create resources outside the net if inside they may be mobilized**.

What effect do the structure-conforming behavior and instruments have on the development of the structure? Do they justify the different outcomes in party-states despite likely similarity of the systems? **We argue that the structure conforming drives and instruments for resource acquisition will have very different effects on the structure and the process of self-reproduction**. **These effects are responsible for the different outcomes in reforming party-states and also for the differences in reforming and non-reforming party-states.**

R**esource mobilizing reforms** occur in a structural pattern where discretion over the extraction of resources is centralized, while resisting capacity of sub-units is relatively high (see in Hungary). These kinds of reforms will remain within the framework of the net. Consequently, mobilized resources will be allocated invariably on the basis of politically rational criteria. contributing to the maintenance of fixed paths. The continuous drive for revealing and exploiting further resources to distribute will cause reform escalation. Escalation will occur without the creation of new resourceful units and the capacity to abandon forced paths *(Csanádi, 1997; Steinfeld, E. 1998)*. Meanwhile, in consequence of the reforms tensions will arise, because of growing difficulties in maintaining traditional interlinking lines (D_2) reaching out to the multitude of organizations, activities and positions. Moreover, the activity of using the net will decrease, since there are no expectable allocations through it. The recurring drives for sustaining self-reproduction will gradually disintegrate the net. However, reform escalation will disintegrate the net without creating alternative resources and alternative rationality of behavior, while continuously hardening the budget constraint. When budget constraints become persistently hard since no further resources may be attracted or extracted in the given structure resource creating reforms are introduced, decentralization of interlinking threads accelerate, extracting discretion are partially decentralized. By that time when though, in this structural pattern the condition of the structure has deteriorated to such extent, that cohesion may not be regenerated and collapse takes place. **Where resource-mobilizing**

reforms dominate, disintegration, collapse and transformation will be sequential.

When does collapse occur? Collapse occurs if implementations of the different instruments are unsuccessful, and the budget constraint becomes **persistently hard.** Consequently, expectations for either attracting or extracting resources within the unit vanish and interlinking threads are either vacated, become irrelevant, or break. There is no reason for the sub-units to remain within the unit's confines. With the collapse of the given net both the principles of operation and the structural motivations induced by them vanish.

Where do collapses occur? Collapse, in consequence of the fractal character may occur at any aggregation level. It may **be segregated (partial), but may be total**. Therefore, depending on the level of aggregation it may occur unperceived or may have cumulative consequences[21]. This depends on the specific pattern (degree of inter-relatedness with other levels of aggregation), the actual level of aggregation itself, the window of opportunity and learned experiences. The more interpenetrated and the more centralized the structure, the more cumulative the collapse.

What kind of collapse may occur? Depending on the specific pattern (interlinking lines, feedbacks and discretion over resources) **collapse may be smooth or abrupt:** smooth, where collapse was pre-empted and prompted by gradual disintegration, abrupt if that process did not take place. Disintegration is not the necessary precondition for collapse. Collapse is not the necessary precondition for transformation. Collapse may be both followed or pre-empted by disintegration and transformation.

Transformation begins when also the main elements of the structure are challenged for a prolonged time[22]. This challenge may affect these elements either simultaneously or gradually. Alternative resource acquiring possibilities emerge, competitive logic begin to presenting themselves, alternative rules are being enforced, and alternative behavior promises to bear fruit. In these cases, the emptying of the rigid structures accelerates (in China see *Smyth, 1998)*. On the one hand, the more capable units strike out

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[21] Naturally, location matters in the face of hard budget constraint. For example, from the point of view of the unit, partial transformations or collapses on lower levels will be politically tolerable. Meanwhile at the system level they may have irreversible consequences for the system itself.

[22] Just to remind: these are the Party, the State, state property, the interlinking threads, the feedbacks and monopolized distribution, political rationality of the structure and operation)

from the former framework (be they individual decision-makers (*Laki, 1991; Gordon* and *D. Li, 1997*), economic units *(Voszka, 1997)*, or whole regions *Bunce, 1999*). On the other hand, drives to get rid of the burden increase – either through decentralization, or shutdowns, or even selling off.

The waning or disappearance of the elements of self-similarity will increase the role and impact of specific patterns. In other words, on the one hand, the legacies of the fractal structure will provide the transformation process with important common characteristics and common reaction to these characteristics.

> *These characteristics are the following: strategic overweight of state property, overwhelming state intervention, inherited rigid structures, fluidity of the forming structure, cumulative uncertainty, dynamic tensions, excessive idiosyncrasies in decision-making, consequently, short-term horizons, short-term interests. Reactions to these characteristics include: short-term criteria in reorientation, drives for emptying the rigid structures, asset stripping, rent seeking behavior (*Bunce *and* Csanádi, 1993; Csanádi, 199*7).*

On the other hand, internal specifics of the given former structure will determine differences in the extent of the above characteristics, and the degree of violence these processes generate (*Csanádi, 1997*a, b*)*.

> *In more details, those features which caused the vast variety of party-state structures will have a great impact on the conditions of departure, on the turmoil in the transformation, on the direction of the institutionalization and on the differences among forming political structures. They will strongly influence the degree of rigidity of the inherited structures, the level of tensions, the speed and depth of disintegration and restructuring, the level of devastation and exposure in the society and economy, and the force to adaptation. They also influence the chances for the stabilization of new emerging structures, the level of uncertainty during the transformation, the potential threat of social explosion, the social basis of extreme movements and parties as well as their success or failure. Moreover, not only fractals on system level and their specifics will influence transformation and institutionalization, but fractal units on different levels having different internal distribution of power will do so. The different dynamics of transformation of these units (be they federal, provincial or other territorial fractal units, enterprises etc.) conforming their former internal distribution of power will also contribute to the complexity and richness of the structure and consequently to the variations of the transformation processes.*
>
> *These differences on national and federal level may be well traced in Yugoslavia, (*Blagojevic, 1999; Bunce, 1999*), in Czechoslovakia,* (Wolchik, 1990)*, in Poland,* (Staniskis, 1991)*, in the Soviet Union* (Bunce, 1999*;*

Roeder, 1993; Derluguian, 1993)*, or in Romania* (Verdery *and* Kligman*, 1990).*

Disintegration, collapse and transformation will occur at a different pace where **forced restructuring** is taking place. In these cases, the status quo is constantly being recreated without the necessity of changing priorities, modernization, adaptation, and the creation of new resourceful units or activities within or outside the reaches of the net. The economy and human resources are exploited to their physical limits – as with Rumania at the end of the 1980s, *(Verdery and Kligman, 1990),* North Korea still these days *(Eberstadt, 1998)* or China during the Great Leap Forward, and the Cultural Revolution *(Barnett, 1967; MacFarquhar, 1990)*. In these cases, collapse will occur only when political opportunities expand and intra-elite conflicts arise in consequence of such externalities as the (expected) death of the leader or collapse of neighboring fractals (see *Bunce, 1999)*. Until then, forced restructuring will conserve the status quo for longer period. This will conserve the controlling and overlapping capacity of the net while economically undermining it. Therefore, **collapse will probably be abrupt. In this case, disintegration and transformation will occur in parallel fashion, but only after the collapse.**

Resource creating reforms occur when extraction capacity within the unit is decentralized and the distribution of power within the unit is such that resisting capacity of sub-units is high, therefore IPS budget constraints become hard. In these cases reforms are forced to create resources or resourceful units outside the net **before** conditions of the structure deteriorate. Resource drives will cause an escalation of reforms here too. But, in consequence of the kind of reforms, this process **increases the alternative field to the net (alternative behavior, activity, organization, property resources and rationality).** By that token, these reforms induce the **relative shrinking of the net.**

One of the ways to increase alternative field in China was the so-called dual-track system since the first half of the 1980s. The dual-track, called as the distinctive element of the Chinese reform process, refers to the coexistence of traditional plan and market channel for the allocation of the given good. Dual-rack 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 plan was fulfilled, the rest of the produced commodity was allowed to 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. The chance was higher for smaller enterprises,

*since large ones were monitored more closely, their price could not deviate from what the state determined, and when goods became scarce, the planners cut back the proportion of goods the large enterprises could market directly (*Naughton, 1996 *p. 8.;* Jin *and* Haynes, 1997*;* Qian *and* Xu*,* 1993; Smyth, 1998*).*

However, the resource creating reforms will make the net shrink in absolute terms too. One of the reasons for that is the drive for transferring burdening and non-strategic sub-units outside the net or the unit (which overlaps with resource mobilizing efforts). These actions not only decrease the number of sub-units attached to the net and, in exchange, increase the amount of extracted and redistributable resources within the net, but will also provide the unit with resourceful entities outside the net. The other reason for the absolute shrinking of the net is the attraction of the alternative options of resource acquisition outside the net. Options will motivate decision-makers to partially or definitely flee out, and thereby vacate the rigid structures within the net. This will take place either by joining the new field, or attracting resources from outside the net (FDI)(*Wu, Y., 1999*). Both privatization, alternative resource attraction and joining the field outside the net will result in either automatic, or forceful retreat of the net **in absolute terms.**

*For example in privatized enterprises, joint ventures, and companies with a foreign shareholding, the role of the Party will decrease both within the sub-unit and within those controlling it through D_1 and D_2 lines. These events may be traced in China both at joint ventures, at private enterprises (Pearson, 1997) and even at SOEs that are transformed into companies and listed on stock exchange (*Interview, 2000*), or analyzing the consequence of foreign direct investments* (Wu, Y., 1999*).*

Moreover, in consequence of available alternative resources, the **frequency** of using the net also decreases. Consequently, the net will gradually empty, while within the confines of the net, due to the main characteristics, politically rational decision-making will prevail. In consequence of the relative, absolute shrinking, loosening and emptying, of the net (taking place parallel to growing alternative outside it), the **transformation will take place parallel to disintegration, before collapse occurs. However, this does not necessarily inhibit system-collapse. It probably only contributes to the attenuation of the collapse.**

In consequence of the fractal character both **forceful resource redeployments, resource mobilizing- and resource creating reforms as well as collapses are taking place simultaneously.** It is a question of the complex structural specificity and state of condition of the given aggregation

level, and that of its sub-units which one of them will be overwhelming and what are the outcomes of their mutual influence. Reforms on the one hand, conserve the system by either mobilizing, or producing resources to redistribute. At the same time, with the differentiation in activities, organizational, and positional structure they reduce the ability of the dependency threads to "cover" the party and non-party structure. Moreover, depending on structural specifics, they create a growing economic and social field outside the net that offers alternative rationality, while within the net politically rational behavior and forced paths of redistribution prevail. In other words, they may loosen the system, make it retreat or, indeed, by directly weakening the basic elements of the structure, throw the system into disarray. **As a result, either one of the described means of resource acquiring within party-states are simultaneously instruments of self-support and paths to systemic self-destruction.** What are the consequences that we may draw from the above conclusion concerning China and Hungary?

Based on the structural and dynamic criteria of the IPS model, we argue that also the differences in the type, fate and outcome of reforms in party-states are comparable.

SUMMARY

Summarizing the arguments of this work we claim that the Integrated Party-State (IPS) model *(Csanádi, 1997)* allows us to place the party-state structures and their dynamics into a common framework. Starting from this, **the IPS model suggests that the structure and dynamics of party-state systems are comparable**. This possibility is theoretically demonstrated along several dimensions**:**

(i) The model reveals the structural background of the interdependency between party-, state- and economic decision-makers. It describes the basic elements of this structure, their connections and their underlying principles of connection. This structure is formed by the dependencies and interest promoting possibilities and the structurally inbuilt inequalities concerning interest promotion. It reveals the similar character of the elements and connecting principles of this interpenetrating structure best described as a fractal (self-similar) feature. We argue that this self-similarity will prevail, despite the differences in time, space, levels of aggregation and the developing or deteriorating condition of the structure. Based on this argument, party-state **structures are comparable** as fractals. Therefore, comparability will be sustained, despite extreme differences in the size, geopolitical location, cultural specifics, historical traditions, level of institutionalization, stage of societal development at the time of party-state formation or at the time of departure from the Stalinist model, etc.

(ii) In consequence of the structural background, principles of operation will induce political monopoly in the dependencies, the interest promotion, and the extraction and redistribution of resources. This will induce a characteristic behavior in the distribution of and in the demand for resources and make the principles of operation in a fractal unit self-similar. Our analysis suggests that in the process of self-reproduction, both the allocation and the extraction of resources is selective along the structural inequalities of interest promotion. Criteria of selection are determined by the political rationality of behavior produced by the characteristics of the structure and operation, and the motivations stemming from them. We argue that in consequence of the selectivity in the redistribution, it is not the soft budget constraint of enterprises in general that characterizes party-state systems, but rather the selective incidence of constraint within

fractal units. Based on the common (self-similar) structural background and dynamic principles, the IPS model suggests that the **principles of the dynamics of reproduction** of party-state systems **are also comparable**.

(iii) The model reveals the structural background of the differences. These differences develop in consequence of combinations of diverse variations of the structural elements: the interlinking threads, the feedback connections, and the level of extraction and distribution of monopolized resources. These differences may take place in time, in space, in different levels of aggregation of the same structure and in different state of development of a structure. We argue, that **structural differences** in the distribution of power and the corresponding differences in the selective allocation of resources and thus the soft/hard budget constraints in party-state systems **are also comparable.**

(iv) It has been argued here that budget constraints will be structure-specific. Whether the budget constraints of a fractal unit during the process of self-reproduction hardens or softens depends upon the combination of the unit's bottom up bargaining and top-down enforcing capacities during interactions. The complex interplay of its structure-specific interactions introduces a new concept of budget constraint in the framework of the IPS model. Structure-specific budget constraint will induce structure-specific motivations and behavior in the reproduction process. If budget constraints are soft, the maintenance of status quo is the priority. If budget constraints become hard, the unit will implement structure specific instruments to extract further resources. From this point of view, **the differences in the dynamics, and the differences in the implementation of different types of instruments of resource acquisition in party-state systems are comparable.**

(v) The structure-conforming instruments will have different impact on the structure, resulting in different outcomes in the given unit. Depending on structural specifics, instruments of self-reproduction may cause disintegration, collapse and transformation sequentially. They may also cause parallel disintegration and transformation that may occur either after the collapse or before it. In consequence of the fractal character and the structural specifics, different structure-conforming instruments may take place and have their impact in one aggregated system simultaneously. For the same reason, reproduction, collapse and transformation may occur simultaneously in different

fractal units or their aggregations. Their combined impact will provide the specific character of the dynamics of reproduction. **Based on the structural and dynamic criteria of the IPS model, we argue that the differences in the kind of resource-acquiring instruments and their different consequences on the process of self-reproduction in party-state systems are also comparable.**

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