

# How did China Learn from and Surpass the Hungarian Reform Model? An Analysis of Structural Reasons

## Abstract:

In this paper similarities and differences are demonstrated between Chinese and Hungarian party-state systems. We define the structural background of different reforms that created the Hungarian “Goulash communism” and the reforms in “Chinese style”. We shall demonstrate how these structural backgrounds have led to political transformation first in Hungary accompanied by economic crisis, and economic transformation first in China accompanied by macroeconomic growth.

## Introduction:

System transformation in Eastern Europe and Soviet Union started with the political delegitimizing of the communist party. Political transformation logically drew the attention of scholars studying these regions to democratization, economic crisis and systemic outcomes<sup>1</sup>

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<sup>1</sup> Hellman, Joel, (1998): ”Winners Take All: the Politics of Partial Reform in Post-communist Transformations” *World Politics* 50 (January): 203-3; Siglitz, Joseph E. 'Wither Reform? Ten Years of the Transition' Paper prepared for the Annual Bank Conference on Development Economics, Washington, D.C. April 28-30, 1999; de Melo, and Gelb A., *'From Plan to Market: Patterns of Transition'* Washington, DC 1996, World Bank; Hoen, Herman W. *The Transformation of Economic Systems in Central Europe* Edward Elgar, Cheltenham, UK, Northampton, MA, USA, 1998; Gomulka, S. 'Economic and Political constraints during Transition' *Europe*. *Asia Studies*, 1994, Vol.. 46 N. 1, pp. 89-106; Comisso, Ellen, 'Market failures and market socialism: Economic problems of the transition', in *Eastern European Politics and Societies*, Vol. 2, No. 3, 1988 pp. 433-65; Bunce, Valerie and Maria Csanádi, 'Uncertainty in the Transition. Post- Communism in Hungary' *East European Politics and Society*, Vol. 7., No. 2. Spring, 1993, pp. 240-275; Bunce, Valerie, *Subversive Institutions The design and the destruction of socialism and the state*, Cambridge University Press, (Cambridge, 1999); Blagojevic, Marina, 'Institutions in Serbia: From Collapse to What?' in *Institution Building in the New Democracies. Studies in Post-Post-Communism* ed. Hans Georg Heinrich, Collegium (Budapest, 1999) Institute for Advanced Study, Workshop Series, pp. 43-85;

Regarding China, where system transformation started in the economy, China experts focused on economic transformation and micro- and macroeconomic growth.<sup>2</sup> Communication across the two groups was scarce owing to deviating comparative interests. Comparative interest of the first group has been drawn on democratization in other transforming authoritarian systems as in Latin America or Southern Europe<sup>3</sup> logically neglecting the comparison of such stabilized authoritarian

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Bejan, Adriana, *Romanian privatization programs: why did they fail?* MA Thesis, June 2000, Political Science Department Central European University; Black, Bernard, Reinier Kraakman, and Anna Tarassova, 'Russian Privatization and Corporate Governances: What Went Wrong?' *Stanford Law Review* Vol. 52, No. 6, July, 2000, pp. 1733-1808; Kryshtanovskaya, Olga and Stephen White. From Soviet Nomenklatura to Russian Élite *Europe-Asia Studies*, Vol. 48, No. 5, 1996, pp. 711-733; Bunce, Valerie, 'Decline of a Regional Hegemon: The Gorbachov Regime and Reform in Eastern Europe' *East European Politics and Society*, 1989 Vol. 3, No. 2, Spring, pp. 235-67; Bunce, Valerie 'Sequencing of Political and Economic Reforms' in John Hardt and Richard Kaufman, eds. *East-Central European Economies in Transition*. Washington, DC, Joint Economic Committee, United States Congress, 1994 pp. pp. 49-63.

<sup>2</sup> Sachs, Jeffrey and Wieng Thye Woo, (1997): "Understanding China's Economic Performance" NBER Working Paper, (October) N.5935; Cao, Yuanzheng, Yingyi Qian and Barry Weingast, (1999): "From Federalism, Chinese Style to Privatization, Chinese Style" *Economics of Transformation* 7 No. 1: 103-131; Chen, K., G. Jefferson and Inderit Singh, (1992): "Lessons from China's Economic Reform" *Journal of Comparative Economics* Vol. 16, No. 2. pp. 201-225; Walder, Andrew G. (1995): "China's Transitional Economy: Interpreting its Significance" *The China Quarterly* 143: 963-79; Weingast, Barry, (1995): "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development" *Journal of Law, Economics, & Organization* 11: 1-31; Qian Yingyi and Chengang Xu. "Why China's Economic Reforms Differ: the M-form Hierarchy and Entry/Expansion of the Non-state Sector." *Economics of Transition*, Vol. 1, No. 2. 1993. pp. 135-170; Wong, Christine. "Why China Grew." In Peter Boone, Stanislaw Gomulka, and Richard Layard (eds.), *Emerging from Communism: Lessons from Russia, China, and Eastern Europe*. Cambridge, MA, London: MIT Press. 1998. pp. 153-182; McMillan John, and Barry Naughton. "How to Reform a Planned Economy. Lessons from China." *Oxford Review of Economic Policy*, 8. Spring 1992. pp. 130-143; Pearson, Margareth M. *China's New Business Elite. The Political Consequences of Economic Reforms* University of California Press, (Berkeley, L. A. London, 1997); Denglian, Jin and Kingsley E. Haynes, "Economic Transition at the Edge of Order and Chaos: China's Dualist and Leading Sectoral Approach" *Journal of Economic Issues* XXXI. No. 1, (March, 1997): 79-100; Yang L., Dali. *Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China* Stanford University Press, 2004;

<sup>3</sup> Gans-Morse, Jordan Contemporary Theories of Post-Communist Transitions and the Myth of a Dominant Paradigm <http://faculty.wcas.northwestern.edu/~jlg562/documents/Gans-Morse--PSA.pdf>; Valerie Bunce, "Should Transitologists Be Grounded?" *Slavic Review* 54 (1995): 111-127; Carothers, Thomas The End of Transition Paradigm *Journal of Democracy* Volume 13, Number 1 January 2002

communist regimes as China. Comparative interest of the second group focused on economic reforms, market and the ideal sequence of system change starting with economic transformation rather than political, attracting macroeconomic growth rather than economic crisis. Economic reforms in China and post-communist countries were compared, either as lessons from Chinese reforms to be learned, or explaining the Chinese success compared to the less successful European counterparts.<sup>4</sup> Communication gap between the two comparative groups left several issues pending. For example: the difference between system transformation and the transformation of any of its sub-fields (be it political or economic), the reason of different sequences of transformation (political or economic first), the different economic and political

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<sup>4</sup> Newberry, David M. 'Transformation in Mature versus Emerging Economies: Why has Hungary been Less Successful than China? Paper presented to the International Symposium on the Theoretical and Practical Issues of the Transition towards the Market Economy in China. Hainan, China, China Institute of Economic Reform and Development, 1-3 July, 1993; Goldstein, Steven M., 'China in Transition: The Political Foundations of Incremental Reform' *China Quarterly*, 1995, Vol. 144, pp. 1105-31; Bolton, Patrick, 'Privatization and the Separation of Ownership and Control: Lessons from Chinese Enterprise Reform' *The Economics of Transition* Vol. 3 IV. 1. 1995 ECARE Université Libre de Bruxelles B-1050 (Brussels, 1995); Woo, Wing Thy, 'Structural factors in the economic reforms of China, Eastern Europe, and the Former Soviet Union' *Economic Policy*, Vol. 18, April, 1994; Singh, Inderjit. J. 'China and Central and Eastern Europe: Is There a Professional Schizophrenia on Socialist Reform?' Research Paper Series, No. 17, Washington D.C. socialist Economies Reform Unit, The World Bank, 1991; Boone, Peter and Jacob Hoerder, *Inflation: Causes, Consequences and Cures' in Emerging from Communism: Lessons from Russia, China, and Eastern Europe* ed. Boone, Peter, Stanislaw Gomulka, and Richard Layard MIT Press Cambridge, Ma, London pp. 43-70; Wu Yu-Shan, *Comparative Economic Transformations: Mainland China, Hungary, the SU and Taiwan.*, Stanford Univ. Press, Stanford, 1994; *The Waning of the Communist State: Economic Origins of Political Decline in China and Hungary* (ed.) University of California Press, 1995; Tong, Yanqi, *Transitions from State Socialism. Economic and Political Change in Hungary and China* Rowman and Littlefield Publishers Inc. London, Boulder, New York, Oxford, 1997; Rawski, Thomas, 'Implications of China's Reform Experience' the *China Quarterly*, 1995, Vol. 144, pp. 1150-73; Goldstein, Steven M., 'China in Transition: The Political Foundations of Incremental Reform' *China Quarterly*, 1995, Vol. 144, pp. 1105-31; Bolton, Patrick, 'Privatization and the Separation of Ownership and Control: Lessons from Chinese Enterprise Reform' *The Economics of Transition* Vol. 3 IV. 1. 1995 ECARE Université Libre de Bruxelles B-1050 (Brussels, 1995); Naughton, Berry, *Growing Out of the Plan Chinese Economic Reform, 1978-1993*. Cambridge: Cambridge University Press. 1996; Zhang, Baohui, "Corporatism, Totalitarianism, and Transitions to Democracy," *Comparative Political Studies*, 27, 1:108-136, April 1994.

conditions in case of different sequences of transformation or, reasons of transformations accompanied by economic growth or crisis.<sup>5</sup>

Hungarian reforms that started in the late 1960s providing relatively high living standards were outstanding among party-states. No wonder Hungarian economic system was nick-named as „Goulash communism”<sup>6</sup>. „Goulash communism” however, ended up in system collapse in 1989 and transformation was accompanied by economic crisis, as in all Eastern European and Soviet party-states. Chinese reforms started in late 1970s demonstrating an uncontested economic development. The system survived the Tiananmen square tragedy that paralleled the domino system collapses all over Eastern Europe. Instead, economic development even accelerated some years after the political shock. Reforms in China that caused that exuberant development were viewed as strictly connected to wisely pursued Chinese economic policy, thus nick-named worldwide as “Chinese style reforms” that does not seem to follow the same tendency as its European counterparts.

Was there anything in common at all between the Hungarian and the Chinese reforms? If yes, what are the causes of such a different fate? Tracing back in time to find the motivations of reform and their structural background we arrive to one very important common factor: in the 1950s in both countries a Stalinist centralized system was operating and both countries suffered transitory system collapse that pre-empted reforms. The character and motivation of these system collapses however was qualitatively different. In Hungary, it was a sudden, abrupt event in 1956, due to the destabilization of the system and the weakening of the Hungarian Muscovite leadership in the aftermath of Stalin’s death in 1953.<sup>7</sup> The collapse, marked by the 1956

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<sup>5</sup> Csanádi, Maria. (2006) *Self-consuming Evolutions: A Model on the Structure, Self-reproduction, Self-destruction and Transformation of Party-state Systems Tested in Romania, Hungary and China*. Akademia Kiado, Budapest pp. 104-120 (Csanádi, 2008 in Chinese); Bunce, Valerie and Maria Csanádi. “Uncertainty in the Transition. Post-Communism in Hungary,” *East European Politics and Society*, Vol. 7., No. 2. Spring, 1993. pp. 240-275; Gelb, Allan, Garry Jefferson and Inderjit Singh, (1993) “Can Communist Economies Transform Gradually? The Experience of China” in Olivier Blanchard and Stanley Fisher, eds., *NBER Macroeconomics Annual* (Cambridge: MIT Press), 87-133;

<sup>6</sup> Goulash is originally the name of a traditionally Hungarian rich meat food and also soup.

<sup>7</sup> Csaba, Békés *Cold War, Détente and the 1956 Hungarian Revolution*. The Cold War as Global Conflict International Center for Advanced Studies, New York Working Paper: #7, September 2002. University <http://www.coldwar.hu/html/en/publications/detente.pdf>

revolution, was short-lived due to its clamp down by Soviet military intervention and fast system restoration with their active assistance. In China a series of transitory shocks destabilized the power structure. This was due to Mao's internal power struggles that ended up in two major nation-wide mobilizing and decentralizing campaigns: the Great Leap Forward and the Cultural Revolution. The radical campaigns temporarily demolished the structure and paralyzed the operation of the system to stabilize Mao's personal power against potential competitors.<sup>8</sup> Differences were found also in the motivations of the restoration and stabilization of the system in a modified power structure. In Hungary, restoration of the structure by the new leadership was based on the bitter political experiences of an over-centralized power concluding in revolution. Consequently, there was a strong drive to balance power and prevent another de-stabilization. This motivation ended up in decreasing personal decision-making power by increasing the role of collective decisions and in integrating strategic economic interests in the centralized decision-making process for the sake of closer supervision. In China, motivation of the leader was to decentralize the power-structure toward provinces, integrating them in the decision-making process in order to eliminate the power of potential central competitors to his personal power. During these periods decisions over resource extraction and distribution were decentralized through the partial decentralization of discretion over state owned enterprises under the supervision of local governments. In Hungary discretion of control over economic units remained centralized and so did the resource extraction and distribution.<sup>9</sup> The two different reasons of transitory collapses and divergent strategies in restorations resulted in the institutionalization of two different patterns of power distribution.

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<sup>8</sup> Bachman, David, *Bureaucracy, economy, and leadership in China. The institutional origins of the Great Leap Forward* Cambridge University Press, Cambridge, Port Chester Melbourne, Sydney, 1991; Pye, Lucian W. Reassessing the Cultural Revolution *The China Quarterly*, No. 108 (Dec., 1986), pp. 597-612 Published by: Cambridge University Press on behalf of the School of Oriental and African Studies Stable URL: <http://www.jstor.org/stable/653530>

<sup>9</sup> Csanádi, Maria. *Party-states and their Legacies in Post-communist Transformation*. Cheltenham, UK, Northampton, Ma, US: Edward Elgar. 1997 (Chinese version in 2001 and 2002, published by Jilin Peoples Publishing House); Csanádi, Maria. (2006) *Self-consuming Evolutions: A Model on the Structure, Self-reproduction, Self-destruction and Transformation of Party-state Systems Tested in Romania, Hungary and China*. Akadémia Kiadó, Budapest (Chinese version in 2008, published by CC Publishing House)

Different patterns of power distribution, however, had several common traits: both differed from the centralized Stalinist structure of the 1950s; both involuntary integrated strong resisting (bargaining) capacities to central interventions and resource attracting capacities in the decision-making process through local governments in China and large enterprises in Hungary. Despite pattern differences both structures were characterized by the self-similar elements, connecting and operating principles of the communist system. Variations occurred within these general characteristics.

In the next chapters, through the short introduction of the Interactive Party-State model (IPS),<sup>10</sup> we shall first detail those general system characteristics of party-states which put them on common analytical grounds, and second, the structural basis of different patterns of power distribution that explain their differences in operation and transformation. We will show that these different patterns will attract different kind of instruments of resource extraction and distribution in order to reproduce the system. Next, we shall demonstrate that these different instruments will incite different ways of operation that will end up in different ways of transformation. Conclusions will follow that dissimilarities of reforms and transformations are not strategic choices but have a structural basis within which strategic choices have the room for maneuver and interact with the structure. Based on the model we shall respond to the puzzle why did Chinese reforms deviate in early 1990s from the enthusiastically learned Hungarian reforms of the mid 1980s? We shall reveal how did this influence the differences in their transformation process and conclude that this was not a question of choice.

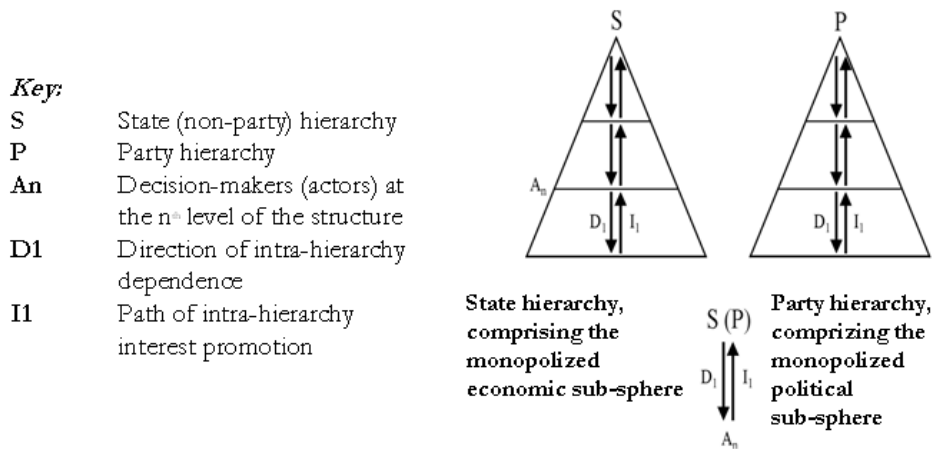
### **1. Self-similarities of party-states**

The model defines three overlapping and intertwined layers of relationship among decision-makers that form the party-state structure:

(1) First of all, there are two special hierarchies: the party hierarchy monopolizing the political sub-sphere and the state hierarchy monopolizing the economic sub-sphere that allows for the monopolized extraction and distribution of resources (see Fig. 1)

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<sup>10</sup> See in detail in Csanádi, 2006, 2008

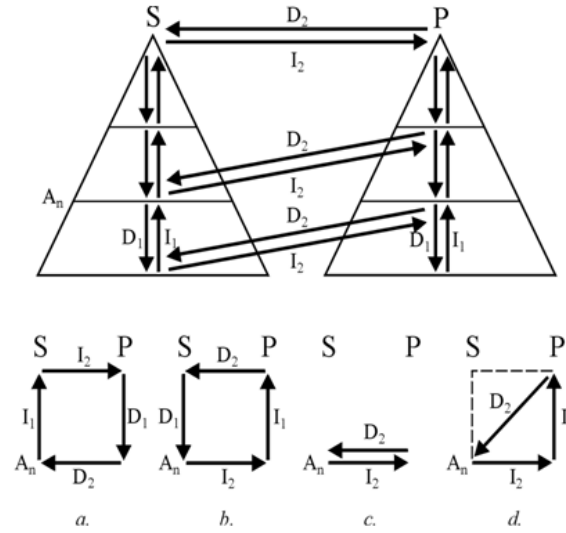


**Figure 1. First layer: the formal hierarchies of the party-state structure and varieties of interest promotion**

(2) The two separate hierarchies are interlinked by the party's instruments of power that permeate the boundaries of non-party institutions and overlap the decision-making process through positional structure, activity structure, and organizational structure and through individual decision-makers upon their party discipline<sup>11</sup>. These interlinking lines develop dependency but at the same time serve for interest promotion of those embraced by them, introducing an inequality of interest promotion among decision-makers attached to and deprived of these lines (see Fig. 2). The multitude of threads is directly linking individuals of party and non-party institutions thereby causing mutual sensitivity to each others' decisions. These channels (threads) of dependency and interest promotion are hidden and closed, rendering the institutional atomization of individual actors and enhancing their drive for individual interest promotion.

<sup>11</sup> These instruments of party power are for example: the well known nomenklatura (cadre responsibility) system that infiltrates non-party institutions and overlap decision-making process through the positional structure; the subject-matter responsibility system of the party that overlaps the decision-making process through activity structure; the instructor system that overlaps the decision-making process through the organizational structure and the party discipline of individual party members, that overlaps decision-making process directly through individual decision-makers.

**Key:**  
 S State (non-party) hierarchy  
 P Party hierarchy  
 A<sub>n</sub> Decision-makers (actors) at the n<sup>th</sup> level of the structure  
 D1 Direction of intra-hierarchy dependence  
 D2 Direction of cross-hierarchy dependence  
 I1 Path of intra-hierarchy interest promotion  
 I2 Path of cross-hierarchy interest promotion



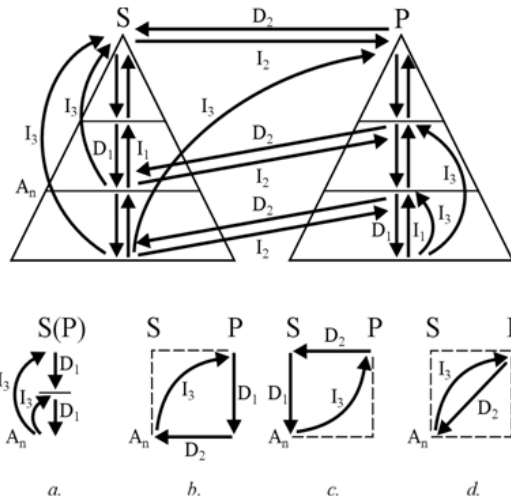
**Figure2. Second layer: the interlinking threads and varieties of interest promotion**

(3) The decision-making process for some actors may be short-cut both within each hierarchy and also across state-to- party hierarchy by having the chance to directly or indirectly participate on higher level decision-making. Short-cuts form a structural feedback loop through either intra-hierarchy or cross-hierarchy dependency lines. Through feed-backs a new structural inequality of interest promotion is introduced for those privileged by them, since actors at one level may meet decision-makers of higher levels whom otherwise would never meet, thus, have access to otherwise hidden information, are able to influence decisions, resist interventions, accumulate new short-cuts and prepare to unavoidable impacts (see Fig. 3).



**Key:**

- S State (non-party) hierarchy
- P Party hierarchy
- A<sub>n</sub> Decision-makers (actors) at the n<sup>th</sup> level of the structure
- D<sub>1</sub> Direction of intra-hierarchy dependence
- D<sub>2</sub> Direction of cross-hierarchy dependence
- I<sub>1</sub> Path of intra-hierarchy interest promotion
- I<sub>2</sub> Path of cross-hierarchy interest promotion
- I<sub>3</sub> Direction of feedbacks

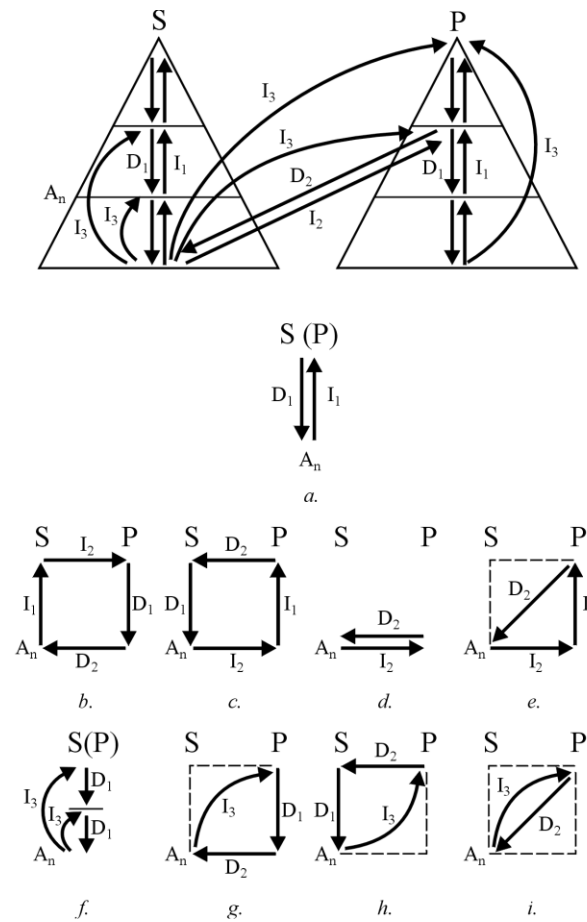


**Figure3. Third layer: the shortcuts (feedbacks) and varieties of interest promotion**

The two hierarchies with monopolized political sub-sphere, and monopolized economic sub-sphere, the interlinking lines and the feedbacks are the main elements of the party-state structure. These elements appear in three intertwined layers that will form the party-state network. The structure reveals its principles of connection: interlinking lines may origin only from party hierarchy, since they are instruments of party power? cross-hierarchy feedbacks may origin only from non-party hierarchy, since the loop is closed by the interlinking lines that origin in the party hierarchy. Structural characteristics explain the principles of operation: since all actors hold hierarchical dependency lines but only actors in the party hierarchy hold dependency lines interlinking decision-makers in all other sub-spheres, dependencies, interest promotion and resource extraction and allocation are directly or indirectly politically monopolized.

Consequently, the party -- originally as one entity in one sub-sphere (political), through its power instruments monopolizing the political sub-field and permeating and monopolizing the other subfields and defining its internal inequalities -- develops into a politically monopolized power network that *operates as a social system* (Fig. 4). In this system dependencies are multithreaded, so is interest promotion. Structural inequalities of the capacities for interest promotion arise through multithreaded hidden channels and their short-cuts within and across party- and non-party hierarchies. Thus, bargaining capacities within the structure and formal

positions do not overlap. Different bargaining positions of actors will secure the distribution of power within the structure.



**Figure4. The complex network of party-states as a social system and varieties of interest promotion**

Structural and operational characteristics will provide the dynamics of self-reproduction. Within this complex social structure actors are in dual position: they are simultaneously *holders of and captured by dependency lines*, thereby incorporating two functions simultaneously: distributors and pleaders in *one single entity*. The dual functions will be fuelled by dual structural motivations:

- As monopolistic holders of the lines, they are able to intervene the decision-making process, and simultaneously forced to intervene since there are no

alternatives to intervention and thus, restraining from intervention, they would lose positions to other actors who will intervene

- As embraced by these lines they are exposed and simultaneously interested in keeping and multiplying monopolistic dependency threads for interest promotion and accommodate to expectations of those who intervene. Without alternative ways of interest promotion, non-applying actors will lose bargaining position and chances for interest promotion to those who apply

Consequently, capacity and force, exposure and interest together ensure the *politically rational* motivations of behavior for actors to reproduce bargaining status-quo and thereby the cohesion and reproduction of the whole network.

Owing to actors' dual position and function, the capacity for self-reproduction is *complex*: one single actor as holder of the lines (intervener) has resource extracting and redistributing capacity, while as embraced by those (pleader), it has resource attracting capacities and resisting capacities to interventions. These factors together will provide the *constraints* of the capacity for self-reproduction of an actor's bargaining position.

However, constraints of this capacity are *not uniform* to all actors, since positional differences due to built-in inequalities – interlinking lines ( $D_2$ ,  $I_2$ ) and feedbacks ( $I_3$ ) – will forge *selective chances* (capacities) for resource attraction, extraction, allocation and for resisting interventions. Consequently, this will lead to *selectively soft or hard* constraints of self-reproduction according to the actors' structural bargaining capacities.

Major characteristic in the structure and dynamics of this social system is the outstanding role of *political concerns*. Structurally, political concerns determine the rationale of connecting subfields, the instruments for connection, the in-built inequalities, the principles of connection and operation. Structural characteristics will define the political rationality of the dynamics of self-reproduction of the structure through the dependencies, interest promotion and resource distribution, the criteria of selection, and based on that, the fixed paths of resource distribution. Such criteria will determine the development of selectively soft/hard reproduction constraints, the politically rational economic motivation and behavior (accumulating feedbacks and drive for growth) through hidden channels.

Structural and dynamic characteristics, however, will also bring about the *traps* of self-reproduction. Traps will evolve due to the fact that economic *efficiency constraints* and motivations for efficiency in self-reproduction will be *lacking* individually and for the whole structure. Instead, *structural constraints* – that is, the given distribution of power (attracting and resisting, extracting and allocating capacities) – will determine the hardness or softness of reproduction constraints, both for individuals, for units and for the net as a whole. Thus, since economic behavior is politically rational instead of economically, and power distribution rather than efficiency determines the constraints of self-reproduction, the process of self-reproduction is simultaneously a process of *self-consumption*.

The above features are self-similar in time, in space and in different aggregation levels and induce self-similar behavior and interest for selection, allocation. Characteristics of self-reproduction are leading to self-similar traps of self-reproduction of the system. These self-similar characteristics form the common ground for comparison of the Chinese and Hungarian party-states despite so many individual specifics connected to size, historical, cultural, economic, geographical, geopolitical differences etc.

## **2. Structural background of the different operation of party-states**

Despite of self-similarities, party-states operate, reproduce themselves and transform *differently*. The IPS model offers a structural explanation of those differences. The structural background of differences is produced by the combination of the variations of constructing elements described above while keeping principles of operation unharmed. That is, (1) the strictness of decisions within the hierarchies, (2) the level of centralization or decentralization of discretions over extraction and distribution of resources along the state hierarchy, (3) the level of centralization or decentralization of the discretion of holding interlinking dependency lines along the party hierarchy, its density, its outreach and its depth in the place of outreach, and finally, (4) the origin, the target, the density and the accumulation of feedbacks within the network, be they within and/or across state-party hierarchy.

The combination of these varieties will provide the *different distributions of power* within the network. These wide- ranging power distributions may be grouped into three characteristic

patterns. Pattern specifics are defined by the above factors (discretion over resource extraction and distribution, interlinking lines and feedbacks). These three – self-exploiting, self-disintegrating and self-withdrawing -- patterns will have characteristic distributions of power that define resisting and resource attracting capacities within the structure, characteristic instruments for reproducing the power structure, and finally, characteristic ways of transformation. Let us see the three patterns in detail.

TRAITS	SELF-EXPLOITING (e.g. Romanian)	SELF-DISINTEGRATING (e.g. Hungarian)	SELF-WITHDRAWING (e.g. Chinese)
<i>Distribution of power</i>	Centralized extraction and distribution, centralized interlinking threads, few feedbacks	Centralized extraction and redistribution, centralized (or decentralized) inter-linking threads with strong economic feedbacks	Partially decentralized extraction and redistribution and either centralized or decentralized inter-linking threads with economic feedbacks
<i>Relationship between units and sub-units</i>	Faint attracting and resisting capacity	Selectively strong attracting and resisting capacity	Selectively strong attracting and resisting capacity due to alternatives
<i>Constraints of self-reproduction</i>	Rarely hard	Occasionally hard	Frequently hard
<i>Made of resource acquisition</i>	Forced resource redeployment	Resource mobilizing (decentralizing) reforms <i>within</i> the net	Resource mobilizing <i>within</i> and resource creating reforms <i>outside</i> the net
<i>Economic development</i>	Forced growth of heavy industry to physical boundanes	Economic recession and reform <i>escalation leading to transformation</i>	Economic growth outside the net, <i>selective</i> recession within the net and reform <i>escalation leading to transformation</i>

Table 1. Main patterns of power distribution

(i) *The self-exploiting pattern*: this pattern was characteristic to all party-states until mid-late 1950s and to several European and Central Asian republics till the end of 1980s and presently to North Korea. In this pattern, the distribution of power is such that both the extraction and allocation of resources and the interlinking lines are centralized, and there are weak or none economic feedbacks. These latter will mean weak resisting and attracting capacity within the network. In this case, the center has unconstrained extracting capacity, in other words, its *reproduction constraints are soft*. Softness evolves and persists due to the fact that forced resource redeployment (extraction and reallocation) may be repeated without meaningful resistance. However, owing to unlimited extraction tensions within the structure increase to such extent that in case of a window of opportunity (be it external or internal) the system may collapse abruptly.

(ii) The second pattern will be called *self-disintegrating* which is characteristic to the Hungarian pattern of power distribution after 1956 temporary system collapse: here the distribution of power is such that interlinking threads are overwhelmingly centralized, and so are extraction and distribution of resources, but there are strong economic feedbacks within the net developed after the 1956 experience to control and integrate strategic economic entities. This means that attracting and resisting capacity of fed back units is high within the net in the context of centralized extraction and allocation. In this case however, both strong attracting and resisting capacity hinders the self-reproduction of the structure through measures of forced resource redeployment: these measures, if implemented, prove to be selective according to the extent of resisting capacities. In other words, forced resource redeployment efforts *become form-fitted* to specifics of power relations. In this pattern the self-similarity of motivations and behavior will lead to drive for growth, hoarding resources and feedbacks. However, owing to the drives and selective capacities of resource attraction and the politically rational selective distribution and the lack of efficiency constraints during reproduction of the individual position and the structure as a whole, the system will more frequently run into hardening reproduction constraints.

The higher is the frequency for running into hardening reproduction constraints and the longer the lack of cohesion within the net, the stronger the drive to find other ways to reveal resources to restore the reproduction process and status quo. When and where forced resource

redeployment does not work, reforms become instruments to acquire resources and to recreate the structure's cohesion. Let us call resource-mobilizing reforms those direct or indirect resource-revealing actions that remain within the confines of the net. These actions restructure the context of activity of resource targets within the net rather than allowing the free flow of production factors. Restructuring may occur by decreasing the state's administrative role through the implementation of normative incentives for resource mobilization and measures of extraction. Changes may be achieved by decentralizing state and party decisions to lower administrative levels and/or enterprises. They may also occur by "disentangling" formerly possessed interest-promoting channels, or narrowing the circle of those privileged. With these instruments, resources formerly hidden may come to surface or units formerly passive become active.

However, owing to the strong attracting and resisting capacity of those fed back and politically selective criteria of those who distribute within the net, mobilized resources will be allocated invariably on the basis of politically rational criteria contributing to the maintenance of fixed paths and the further strengthening and soft reproduction constraints of selective targets. This trap leads to repeated decentralization effort to reveal further resources. The continuous drive for revealing and exploiting further resources to distribute may be accelerated further by the hardening of reproduction constraints from above or from outside the net. Escalation however will occur parallel to the decline in the capacity to extract, centralize and redistribute resources, without the capacity to abandon forced paths of soft reproduction constrains of those privileged<sup>12</sup>.

The recurring drives for sustaining self-reproduction will gradually disintegrate the net<sup>13</sup>. However, reform escalation will disintegrate the net without creating alternative resources and alternative rationality of behavior, while increasing the frequency of the hardening of reproduction constraints. When reproduction constraints become persistently hard since no further resources may

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<sup>12</sup> Csanádi, 1997, p. 229; Steinfeld, Edward S. *Forging Reform in China. The Fate of State Owned Industry*. Cambridge: Cambridge University Press. 1998, p. xiii-xv, 3. 18-21; Gordon, Roger H. and David D. Li. *Government Distributional Concerns and Economic Policy During the Transition from Socialism*. Transition Economics, N. 1662 Discussion paper series. Centre for Economic Policy Research, London. 1997, p. 2.

<sup>13</sup> Growing difficulties will arise in maintaining traditional control through interlinking lines (D<sub>2</sub>) 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 while few alternatives emerge.



be attracted or extracted in the given structure, decentralization of interlinking threads accelerate, extracting discretion is partially decentralized and drives to get rid of burdens increase while efforts to create resources outside the net or attract from above strengthen. Parallel to reform escalation through decentralization and declining cohesion within the network the party's legitimacy strongly declines. The condition of the structure deteriorates to such extent that cohesion of the structure may not be regenerated, and a gradual political transformation takes place.

(iii) The third type of pattern will be called *self-withdrawing* which refers also to the Chinese pattern of power distribution. In this pattern interlinking threads are partially decentralized, so are resource extraction and allocation capacities owing to Mao's former campaigns,<sup>14</sup> while there are strong economic feedbacks from several dimensions of the network. Therefore, there is an increased resisting capacity to resource extraction and alternative to central resource distribution within the given pattern at lower levels of administration. Under these circumstances neither forced resource-redeployment nor resource-mobilizing efforts are sufficient for self-reproduction of the whole structure. Meanwhile, due to decentralized resource extraction and the selectively soft allocation overheating is taking place also at local levels and, reproduction constraints of the whole structure become frequently hard. Consequently, resource acquisition drives within the net will be soon forced to either get rid of allocation burdens by continuously decentralizing responsibilities (expenses and targets of allocation), and/or leap out of the net for further resources by allowing the increase of the field outside of the net for further resource extraction. This is the structural reason why despite implementing the Hungarian type decentralizing reforms within the network deviation from those was structurally unavoidable in China for the sake of creating resources for the reproduction of the whole structure.

Let us call resource-creating reforms those measures through which decision-makers partially or completely "leap" out of the net or let the field outside the net grow in order to acquire new resources<sup>15</sup>. This process increases the alternative field to the net (alternative behavior,

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<sup>14</sup> Owing to these campaigns state-owned economic units were repeatedly decentralized while later only partially recentralized and again decentralized. Locally subordinated state owned enterprises ensured local level extracting capacities. By the time Deng Xiao Ping took over the power the decentralized resource extracting capacity and with that the major factor of the specific pattern was institutionalized and stabilized.

<sup>15</sup> For example, extractable resources are created by allowing increases in the number of resourceful units outside the net and the creation of the institutional conditions for this process.

activity, organization, property resources and rationality). By that token, these reforms induce the *relative retreat of the net*<sup>16</sup>.

However, resource-creating reforms will make the *net retreat in absolute terms too*. This process may occur either *directly*, by deliberately withdrawing interlinking- and hierarchical lines (for example, the withdrawal of the net from below county level through semi-free governor elections on township level in China<sup>17</sup>). Another reason for the absolute retreat of the net is the attractiveness of the alternative options of resource acquisition outside the net. Options will motivate decision-makers to partially or definitely exit<sup>18</sup> the network, *vacate the rigid structures* and to leave burdens within the net.<sup>19</sup> The net may retreat also by being cut off. This move occur when the units to which the network is attached disappear through bankruptcy and close-down or privatization of

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For example, letting the exchange of over-the plan products on market prices, to increase revenues outside the net, to enhance conditions for domestic and foreign private ventures, enhance private plot cultivation, to abolish collectives and cooperatives, setting up domestic private enterprises, encouraging the settlement of foreign funded enterprises. Allowing the "entrance" of resources from outside the net, by attracting FDI for creating joint-ventures, transforming SOEs into shareholding enterprises for foreign and domestic private capital infiltration, gradually lifting up barriers to labor mobility, price setting and product and capital flow etc.

<sup>16</sup> Naughton calls the relative growth of non-state sector as "growing out of the plan" in McMillan and Naughton, 1992, pp.130-143

<sup>17</sup> Lai, Hairong. "Development of Competitive Elections since mid 1990s on Township Level in Sichuan Province in China." *China Perspectives* (Hong Kong), Vol. 51, 2004. pp. 13-27. January-February; Shuhfan Ding. "The Party-state Relationship in China, 1978-1986." Dissertation submitted to the Graduate School of the University of Notre Dame, in Partial Fulfillment of the Requirements for the degree of PhD, Dept. of Gov. and International Studies, UND. June 1987, p.32, fn. 18

<sup>18</sup> This may occur either individually (Roger H. Gordon and David D. Li, 1997, p.1-2 and 23), or as organization (Qian, Yingyi. "Enterprise Reform in China: Agency Problems and Political Control." *Economics of Transition*, 4 (2). 1996. pp. 427-47, p. 430; Smyth, Russel. "Recent Developments in Rural Enterprise Reform in China: Achievements, Problems and Prospects." *Asian Survey*. Vol 38. N. 8. 1998. pp.784-800, p. 798.

<sup>19</sup> E.g. in the form of daughter enterprises which than found joint ventures with private ones). Qian, 1996, p. 431

SOEs<sup>20</sup> and TVEs. It may retreat also through the abolishment of organizations and functions of resource distribution, or when the state itself withdraws completely, or partially (e.g. from different sectors). The network may also weaken by attracting resources from outside the net (such as FDI<sup>21</sup>), integrating alternative interests, alternative behavior and capital that will decrease the political influence<sup>22</sup> 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*. These actions have several consequences: they decrease the number of sub-units attached to the net and in exchange, also may provide the unit with resourceful entities outside the net, increase the amount of redistributable resources to the remaining sub-units within the net.

Moreover, because of available alternative resources, the *intensity* of using the net also decreases. The higher is the expectations for harder reproduction constraints within the net the more intensive the pressure to decentralize and to leap out of the net. This drive will cause the escalation of resource creating reforms. Because of the escalation of the implementation of the above measures, the main building blocks of the system (interlinking threads are withdrawn, break, left in limbo or empty, state property is sold out or closed down, state bureaucracy retreats etc) gradually retreat from the economic subfield, while outside of it the economic subfield of a new system emerges. Through this parallel but opposite processes the system transformation takes place with economic transformation first accompanied by macroeconomic growth overwhelmingly provided by the field outside the network.

### **Deviations in the sequence and process of transformation in Hungary and China**

Concluding the above process, in the case of Hungary, political transformation comes first. The retreat of the net and the emergence of the new political sub-sphere is gradual. In this pattern,

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<sup>20</sup> 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 end in resource creation if invested in joint ventures or infrastructure or shares in private enterprises. Meanwhile, privatization decreases subjects for resource extraction within the net.

<sup>21</sup> Wu, Yanrui (ed.). *Foreign Direct Investment and Economic Growth in China New Horizons in International Business*. Cheltenham, UK: Edward Elgar Publishing Ltd. 1999; Huang, Yasheng, "Internal and External Reforms: Experiences and Lessons from China." Part I. *ChinaOnline News*. Sept. 20, 2000.

<sup>22</sup> Pearson, 1997

political transformation is followed by economic transformation. Thus, economic transformation occurs under democratic political regime. Sequence also determines economic conditions during political transformation: There is a steady economic decline, indebtedness, and growth of the volume of loss-making enterprises and restriction spiral that de-legitimizes the communist party despite accelerating decentralizing reforms and makes it retreat gradually from political sub-sphere. Horizontal organizations and new parties form under conditions of macro economic imbalances.

In case of political transformation hardening structural constraints will drive economic policy and party to get rid of burdens by decentralizing the discretion over interlinking lines that reach the economic decision-makers. The party itself weakens its influence within economic units by abolishing full-time position of party secretaries and subordinating them to enterprise managers by nominating them part-time. Declining influence and legitimacy of the party enhances the emptying of the structure: growing number of party members quit the party due to disillusion, declining privileges and alternative options; also staff members are quitting party positions to public or private spheres; not only actors leave but also the interactivity through network gradually vanishes due to the declining capacity of resource distribution. There is a clear withdrawal of vertical and interlinking lines due to the introduction of multi-candidate elections in several fields: at local governments, in the nomination of enterprise managers, to the parliament and to the central committee membership. There is a clear decentralization and later cut off of interlinking lines to economy and state bureaucracy when party decides first to decentralize, later to abolish the nomenklatura system first in unimportant positions than abolishing it totally. Cut offs occur also due to starting close-downs and privatizations: the party's hierarchical line connected to party secretaries in enterprises are cut off and disappear and cut off interlinking lines to enterprises remain in limbo. Streamlining occurs in the name of rationalization drives: inter-ministerial and intra-party committees, or abolishment of such committees, thereby decreasing the pressure towards distribution, disaggregation of large enterprises to increase competitiveness by abolishing their feedbacks and pressure to redistribution. Party members form horizontal platforms within the party, expressing different political -- conservative, liberal, reformist -- views, exposing sharpening power struggle, reform groups are organized horizontally within the network crossing vertical lines of the hierarchy and interlinking lines among hierarchies between party and non-party institutions. Party declares the

withdrawal from the overall principle of party hegemony. Interlinking lines are abolished, paid positions of party secretaries within non-party institutions are abolished and party functions remain social work without influence. Party apparatus is abolished, cadres scattered. Upon political pressure from outside the net Party organizations within non-party institutions were forbidden and party members became „outsourced” from non-party institutions to territorial organizations. Worker’s militia, the party’s own military organization was abolished. As a result of the process of retreat, Party as a social system was withdrawn from political and economic subfields, abolished as a hegemonic party and reborn as a political entity in a de-monopolized political sub-field.

Parallel to the gradual retreat, a new political sub-field is emerging outside the net. Growing number of horizontal groups outside the net is allowed to form: first NGOs of various kinds emerge with non-political scope. Formation of various interest groups was allowed to organize both on economic, public and political subfields. Formation of various political parties was allowed and multiparty system institutionalized. Former party members leaving the net join new formations. Crucial laws were accepted by the old parliament under the pressure of new political organizations and reform-groups. Crucial laws that need two-thirds of votes for change allows the institutionalization of a democratic political regime through free elections, publicity law, rule of law, strike law

Regarding the Chinese case, economic transformation comes first, either followed or not by political transformation. The retreat of the net and the emergence of the new economic sub-sphere is gradual, economic transformation occurs under authoritarian political regime, accompanied by macroeconomic growth (essentially due to the economic field outside the net) and selective tensions among actors located within the net and among those within and outside the network. Political transformation is questionable, since economic growth provides legitimacy to the party that delays political transformation, while uncompensated economic and social tensions and following economic decline could potentially induce such process.

These factors will characterize the transformation since they may strengthen in different sequences, alone, simultaneously, or in different combinations. Due to frequently hardening reproduction constraints of the network decisions over allocation, price, investment, extractions are decentralized while revenues and revenue sources are siphoned away. The network *empties*

when competitive capacities (manpower, organizations and capital) are transferred outside the net, in other words, state values are stripped off the net. The network may *weaken*, due to the infiltration of alternative capital, alternative interests and behavior from outside the net that decreases the influence of the state and the party through the hierarchical and interlinking dependency lines. The network may be *withdrawn* in such a way that former distributive functions and organizations dealing with resource distribution and decisions over allocation and allowing investments are abolished or the threshold of administrative (official) consent elevated. Thus, hierarchical lines of command are shortened and lines interlinking functions and organizations are also withdrawn. The network was and is cut-off through privatizations and close-downs when targets embraced by hierarchical and interlinking lines disappeared from the end of the lines. The network – both hierarchical, interlinking lines and feedbacks -- were streamlined for purposes of rationalization that weaken their density and accumulation declining the capacity for interest promotion.

Emergence of the new economic sub-sphere (market) outside the net occurred as a result of allowing over-the plan production to be sold at market prices both in the industrial and agricultural spheres. The increase of the number of economic units and capital outside the net is allowed. Growing number of enterprises prior attached to the network now privatized. The results of the increase of the transfer (stripped) of convertible capacity (manpower, capital, organization, production) from the net outside of it. This drive is reinforced if chances for resource attraction through the network decline. The scope of the overlapping segment of the network and the emerging field widens through joint ventures or joint-stock companies with private majority share.

Economic transformation is accompanied by a steady macroeconomic growth, overwhelmingly due to the emerging field outside the net through the continuous inflow of foreign capital and increasing domestic capital investments. Meanwhile, owing to the specifics of the distribution of extracting capacities in the network – cut-offs through privatization and close-down are increasing from smaller to larger economic units and from lower to higher level administrative units. Since chances for bailing out larger loss-making SOEs narrow, prospects of massive and concentrated lay-offs strengthen, revenue disparities at several dimensions widen, the party's mass and economic basis in SOEs, and joint companies is narrowing. However, party

legitimacy is kept due to macroeconomic growth, and redistribution of resources for the sustainment of the network.

Thus, pattern characteristics not only determine the instruments and ways of operation, but also the sequence, speed and conditions of transformation. Consequently, pattern-characteristics are the structural reasons of the deviation of Chinese transformation route and the “incapacity” of the Hungarian pattern to choose Chinese way.

## **Conclusions**

We have introduced a comparative institutional framework that puts the Hungarian and Chinese party-states on common systemic ground despite their huge individual disparities in size, in geopolitical location, economic structure, cultural and historical traditions. Based on these general features we have also demonstrated the structural background of different operation and transformation of the two communist systems. Different patterns of power distribution explain the disparities in the sequence, speed and political conditions of economic transformation and economic conditions of political of transformation in the two countries. These characteristics explain why Hungarian „Goulash Communism” ended up in declining legitimacy of the party and political transformation first accompanied by economic crisis, under democratic regime while we find the specifics of the „Chinese style” in economic transformation first accompanied by macroeconomic growth under authoritarian regime keeping party legitimacy. We may conclude that the Chinese deviation from the Hungarian reform example was first of all due to structural constraints of the Chinese pattern of power rather than an issue of strategic choice for economic transformation first. Similarly, structural constraints hindered the Hungarian economic policy to pursue Chinese style reforms. Reforms within the network or external to it are pattern-conforming instruments of resource extraction and distribution. These pattern-conforming instruments escalate with external and internal adaptation pressures that lead to the specific sequence, speed and conditions of transformation. Room for manoeuvre is given within the structural constraints.

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The following abstract which you offered to the conference will be canceled ?

**Structural reasons of learning from and surpassing the Hungarian reform model in China**

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In this paper, I introduce a comparative institutional framework that places the Hungarian and Chinese party-states on common systemic ground despite their huge individual disparities in size, geopolitical location, economic structure, and cultural and historical traditions. Based on these general features, I also demonstrate the structural background to the different functioning and transformation of the two communist systems. Different patterns of power distribution explain the disparities in the sequence, speed and political conditions for economic transformation, and the economic conditions for political of transformation in the two countries. These characteristics explain why Hungarian “Goulash Communism” ended up with the declining legitimacy of the party and political transformation, accompanied by economic crisis and the transition to democracy, while we find the specifics of the “Chinese style” in economic transformation accompanied by macroeconomic growth under an authoritarian regime, retaining party legitimacy. We may conclude that the Chinese deviation from the Hungarian reform example was due primarily to structural constraints of the Chinese pattern of power, rather than an issue of a strategic choice for economic transformation. Similarly, structural constraints hindered Hungarian economic policy in pursuing Chinese-style reforms. Reforms within the network or external to it are pattern-conforming instruments of resource extraction and distribution. These pattern-conforming instruments escalate with external and internal adaptation pressures that lead to the specific sequence, speed and conditions of transformation. Room for maneuver is given within the structural constraints.