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MT-DP. 2004/10

**DO PARTY-STATES TRANSFORM BY LEARNING?
THE STRUCTURAL BACKGROUND OF THE
DIFFERENT TRANSFORMATION PATHS IN VIEW OF
THE ROMANIAN, HUNGARIAN AND CHINESE CASES**

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Institute of Economics
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**Do party-states transform by learning?
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paths in view of the Romanian, Hungarian and Chinese cases**

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Abstract

Through the introduction of a comparative party-state model, I will first demonstrate that due to specific structural and dynamic constraints, the capacity of party-states to learn is both limited and uneven. Differences in the room for manoeuvre are defined by structural and dynamic specifics of power distribution. These will determine the invariable implementation of structure-specific instruments of resource extraction and distribution and their escalation under external pressure no matter the requirements of adaptation. Accelerated implementation of structure-specific instruments leads to different paths of self-destruction rather than adaptation. Adaptation is therefore structurally constrained and self-consuming in party-states. Second, these theoretical arguments will be empirically demonstrated through the economic policy efforts to adapt to market pressures in three radically different party-states – Romania, Hungary by the end of the 1980s and China from early 1990s.

Key words: party-state systems, communist systems, comparative party-state model, patterns of power distribution, transformation paths, reforms, collapse, Romania, Hungary, China

MŰHELYTANULMÁNYOK

DISCUSSION PAPERS

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CSANÁDI MÁRIA

**KÉPESEK-E A PÁRTÁLLAMOK TANULÁS ÚTJÁN ÁTALAKULNI?
AZ ELTÉRŐ ÁTALAKULÁSI PÁLYÁK SZERKEZETI HÁTTERE
ROMÁNIA, MAGYARORSZÁG ÉS KÍNA FEJLŐDÉSÉNEK TÜKRÉBEN¹
?**

Összefoglalás

Az összehasonlító pártállami modell bevezetésével először azt mutatom be, hogy specifikus szerkezeti és dinamikai korlátok miatt a pártállamok tanulási képessége behatárolt és nem egyforma. A mozgástérbeli eltéréseket a hatalmi eloszlás szerkezeti és dinamikai sajátosságai befolyásolják. Ezek kényszerítik ki a szerkezet-konform erőforrás-szerző és -elosztó eszközök ismételt alkalmazását és ezek eszkalálódását külső nyomás hatására, az alkalmazkodás követelményeitől függetlenül. A szerkezet-konform eszközök bevetésének növekvő gyakorisága vezet az önpusztítás eltérő pályáira. Az alkalmazkodás a pártállamok esetében tehát szerkezetileg behatárolt és önfelemésztő. Az elméleti érvek helytállóságát a gyakorlatban három radikálisan eltérő pártállam piaci alkalmazkodási törekvésén keresztül mutatom be. Az országok: Románia és Magyarország az 1980-as évek végétől és Kína az 1990-es évek elejétől.

Extensive comparative literature deals with the puzzle of the extraordinary economic development in China confronted with the precipitous economic decline of the East European and Soviet party-states and the problems of transformation. Scholars frequently point to the rewards of gradual and experimental nature of reforms rather than that of shock in nature. Similarly, they refer to the payoffs of reforms coming from below as opposed to central ones. They stress the benefits of the strategy of carrying out economic transformation prior political ones and to the advantages of mastering reforms under authoritarian conditions rather than in democratic ones. If all these factors prove to be reasonable, than why did other party-states not use China's strategy? What is the room for manoeuvre for economic policy leaders to implement ideal strategies? Through the introduction of a comparative party-state model, I will first demonstrate that due to specific structural and dynamic constraints, the capacity of party-states to learn is both limited and uneven. Differences in the room for manoeuvre are defined by structural and dynamic specifics of power distribution. These will determine the invariable implementation of structure-specific instruments of resource extraction and distribution and their escalation under external pressure. Accelerated implementation of structure-specific instruments leads to different paths of self-destruction rather than adaptation. Adaptation is therefore structurally constrained and self-consuming in party-states. Second, these theoretical arguments will be empirically demonstrated through the economic policy efforts to adapt to market pressures in three radically different party-states – Romania, Hungary by the end of the 1980s, and China from early 1990s.

THE INTERACTIVE PARTY-STATE MODEL²

The theoretical starting point for this paper is the introduction of the *Interactive Party-state* model as an explanatory device for interpreting the operation and transformation of any communist party-state³. Interactivity is

² See in detail in Maria Csanádi A comparative Model of Party-states: the Structural Reasons Behind Similarities and differences in Self-reproduction, Reforms and Transformation Institute of Economics Working Papers, Budapest MT-DP 2004/7

³ Maria Csanádi, *Party-states and their Legacies in Post-communist Transformation* (Cheltenham, UK, Northampton, Ma, US, Edward Elgar, 1997; Csanádi, Maria, A comparative model of party-states: the structural reasons behind similarities and

central to this explanation because it concentrates on the inner workings of the party-state and highlights the interaction of individual and institutional interests and behavior defined by a characteristic structural setting. The comparative model postulates a self-similar⁴ character for the structure and operation of party-states along different dimensions and identifies the structural reasons behind the differences among party-states.

The distinctiveness of a party-state structure evolves through the direct connections between party and state, politics and the state-owned economy⁵ both institutionally and on the level of individual actors (*Figure 1*).

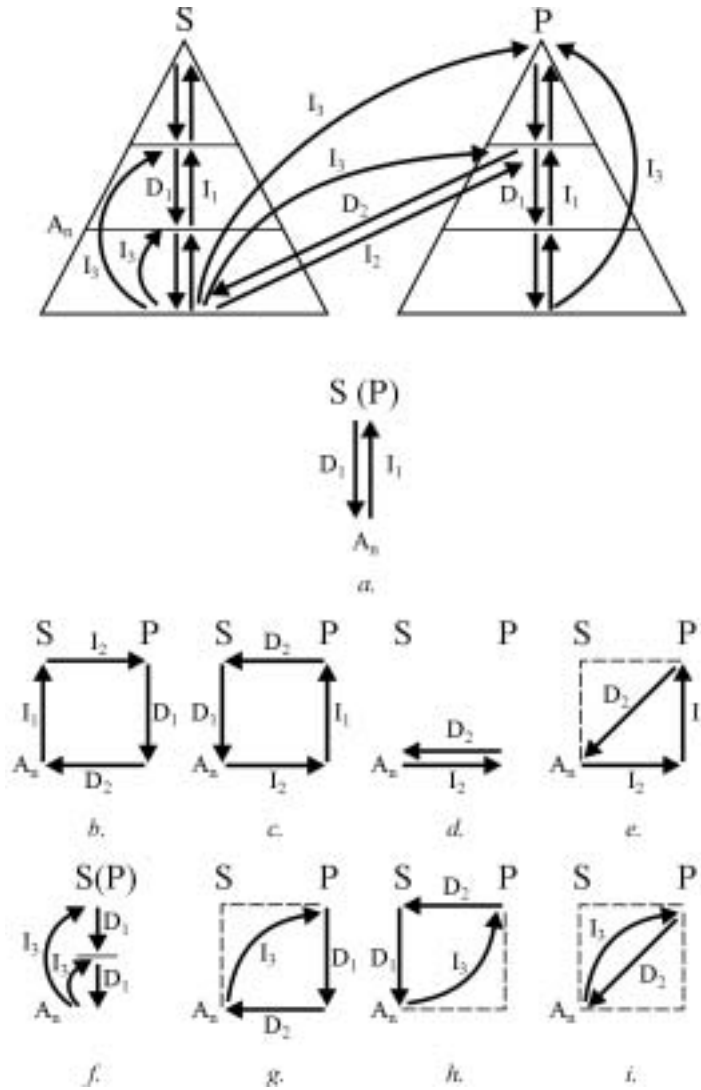
Direct connections arise via the power instruments of the party. We call these instruments as inter-linking dependency lines⁶ (D_2). These inter-linking lines penetrate non-party institutions and directly influence decisions by overlapping positional-, organizational-, activity structure and individual behavior. These specifics render the political nature of dependencies and interest promotion possibilities for those connected to these lines. Inter-linking lines produce structurally built-in inequalities among those connected to interlinking lines and those lacking connection. It makes also possible the deeper political integration of strategic actors that – by meeting priority criteria of politically rational concerns – are able to short cut the decision-making process within and across party and state hierarchies at any level. With shortcuts another structurally built in inequality will emerge.

differences in self-reproduction, reforms and transformation, Manuscript, Institute of Economics (2003).

⁴ Maria Csanádi, Maria and Andras Lőrincz (1992), “Neural Network Formalization of the Hungarian Party-state System”, *Behavioral Science*, Vol. 37, N 2, (1992), 81-108.

⁵ Not only state owned economy is directly connected to the party. The same direct connection is true for other sub-spheres and levels of the society: culture, politics, education, healthcare, civil society, social movements, mass movements, executive legal and judicial decisions, procurator, police apparatus, etc. These sub-spheres for the sake of simplicity, are "condensed" in the concept of the non-party – state – hierarchy.

⁶ The inter-linking lines infiltrating the institutional framework of non-party institutions are the following: nomenklatura system overlapping decisions through position structure in non-party organizations, the subject-matter responsibility system overlapping decisions through activity structure, the instructor system, overlapping decisions through the organization structure, the party membership, overlapping individuals through party discipline (Csanádi, 1997, 2003).



Key:

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

Figure 1 Power structure of the party-state system and the perspective of decision makers (actors, A_n) on various levels on the possible paths of interest promotion (from 'a' to 'i').

Inequality emerges since through shortcuts actors are able to directly promote their interest and resist to disadvantageous decisions by encountering decision-makers whom otherwise, considering their formal position in the hierarchy, would never meet⁷. Shortcuts use D_1 and D_2 dependency lines as loops to feed back achieved results through the shortcuts therefore, they are a form of structural feedback⁸. The result of unequal interest promotion and resistance possibilities through I_2 and I_3 is that bargaining capacities and formal positions differ.

They comprise the structural background of *connecting and operating principles* of party-states. Concerning the connecting principles: interlinking threads (as instruments of party power) may origin only in the party hierarchy, and consequently, cross hierarchy feedbacks that use interlinking dependency lines as loops may origin only in the state hierarchy. These rules provide the basis for the operating principles: for the politically monopolized dependencies, politically monopolized interest promotion, as well as politically monopolized resource extraction and redistribution. These specifics also contribute to the politically rational motivation and subsequent behavior of actors that are being *simultaneously exposed to and holding* dependency lines within the structure. These characteristics furnish the unique institutional interactivity of politics and other spheres at the level of individual decision-making.

The different bargaining capacities of actors simultaneously captured by and holding dependency lines emerge from built-in inequalities due to the distribution of inter-linking lines, feedbacks and the unequal distribution of resource-extracting capacities. These inequalities result in different resource attracting, extracting, distribution and resisting capacities of the actors within the net exposed and holding dependency lines. The balance of these capacities will conclude in *selectively hard or soft constraints of self-reproduction* that within the system forge the dynamics of the structure, motivating actors' behaviour.

Elements, principles of connection of these elements, and principles of operation and the subsequent motivations and behaviour have a *self-similar* character. This self-similarity will prevail no matter the time, the space, the

⁷ For example it may occur within the hierarchies: if an enterprise manager is invited to a ministerial session, or a local party secretary becomes member of the Central Committee of the Party (CC), or across hierarchies: if an enterprise manager or local government leader becomes member of the CC.

⁸ See about structural feedbacks in detail in Csanádi, 1997, pp. 28-37.

levels of aggregation and the conditions of the structure⁹. *Differences* emerge within the self-similar properties due to the different distribution of the origin, extent and depth of inter-linking threads, locus of origin, level and place of arrival and density of feedbacks acquired and the different distribution of resource extraction and allocation capacities along the administrative levels of the structure. The combination of these differences will define the differences in the distribution of actors with soft or hard reproduction constraints and accordingly, the *variations* in the distribution of power. Soft and hard reproduction constraints are selective related to structural specifics. The distribution of the selectivity changes according to the dynamics of reproduction and change of the structure at different aggregations and conditions, and vice-versa, the dynamics of the selectivity will be reflected in the dynamics of power distribution.

Concluding from the above, budget constraints¹⁰ if nested in power relations will acquire critical functions concerning the conditions of self-reproduction of the net, therefore, we shall call it as *reproduction constraints*. In this context, if confronted by Kornai's arguments on budget constraints, reproduction constraints is a structural-systemic rather than a political-economic term; it is selectively soft according to the distribution of power rather than soft in general. Due to the existence of selective softness, selective hardness of reproduction constraints also exists. The extent of softness or hardness depends on the combination of the extracting, attracting allocating and resisting capacity of the unit within the given power relation. The dynamics of its elements will influence the tendency towards the softening or hardening of the reproduction constraints. Softness or hardness of reproduction constraints concerns self-similar units, not only state-owned enterprises. Softness or hardness may vary in time, in space and different aggregation levels and conditions of the structure. Reproduction constraints strongly interact with budget constraints that emerge in the relationship of the net to the environment *external* to the net. The impact of budget constraints in economic sense on the reproduction of the party-state network varies according to the combination of hardness and softness of reproduction and budget constraints. Status quo within the net is preserved (remain soft) if budget constraints are soft, adaptation pressures increase and cohesion of the net declines if reproduction constraints and budget constraints are simultaneously persistently hard. Let us see the variations of the dynamics of self-reproduction and its constraints in different distributions of power.

⁹ This is the reason why we can use this model as an analytical tool at any aggregation level of the party-state structure.

¹⁰ See Kornai, 1981

THE MAIN PATTERNS OF REPRODUCTION AND TRANSFORMATION:

Development and transformations of party-states may be grouped from the point of view of the self-reproduction of the system, according to the specifics of the distribution of power and its adequate dynamics.

The distribution of power includes three major structural factors: (1) the distribution of inter-linking threads, (2) the existence of structural feedbacks (shortcuts) from economic field and (3) the distribution of the discretion on extraction and allocation of resources in the administrative structure. Three major patterns are given upon the variation of the above elements: (i) Self-exploiting, (ii) Self-disintegrating and (iii) Self-withdrawing.

These factors will determine the different *frequency* of hardening reproduction constraint within the pattern, according to its specifics of resisting and attracting capacity within the net. The larger is the resisting and attracting capacity within the net the more frequently will the self-reproduction process run into resource constraints and suffer loss of cohesion in the given distribution of power. Therefore, frequency increases from Self-exploiting through Self-disintegrating towards Self-withdrawing patterns. These structural patterns will also determine the possible measures for resource extraction and distribution to restore cohesion and thereby the different ways of self-reproduction: forced resource redeployment, resource revealing reforms and resource creating reforms respectively. Conversely, the impact of the specific way of reproduction on the structure results in characteristic disintegration, collapse and transformation of the system. Disintegration, collapse and transformation will occur in different sequence and pace according to the specifics of the pattern of power distribution. Hardening reproduction constraints decrease cohesion and increase the frequency of implementing pattern conform measures that further increase tensions, the decentralization, the disintegration and the self-withdrawal of the party-state net according to the specifics of the given patterns.

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

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

When hardening reproduction constraints meet persistent external pressures due to hard budget constraints, the pattern-conform process will accelerate. Acceleration of these processes due to external pressures will escalate the implementation of pattern conform measures that further increase tensions, disintegration and withdrawal and decline the cohesion of the structure. Adaptation will be self-destructive in all patterns, in other words, party-states learning capacity is limited by structural and dynamic constraints. The way of self-destruction however will be different according to the dynamics of the patterns. Patterns will also have a substantial imprint on the character of the transformation: in the level of uncertainty and turmoil, the possible pace of reforms, the length of economic crisis, the time-span to restore equilibrium, the adaptability of the society etc.

In the following section I will shortly demonstrate the last phase of the party-state period in Romania, Hungary and China, as examples of the Self-exploiting, Self-disintegrating and Self-withdrawing patterns respectively¹¹. I will show that in all three cases, when competitive external pressures increased parallel to hardening reproduction constraints within the net the implementation of pattern-conform measures became more intensive and more frequent. Second, non-pattern-conform measures – conservative or reform oriented – were soon form-fitted to power relations. Third, even despite disintegration, interests and politically rational behavior prevailed within the remaining net. I shall describe how did tensions mount in Romania when reproduction and budget constraints simultaneously hardened and how did it lead to social explosion; how did the same international conditions lead to accelerated disintegration and transformation in Hungary; Why did the interplay of internal and external conditions of the net lead to the absolute shrinking of the net and to the growing field outside of it in China.

HISTORICAL SETTING

By the second half of the 1970s, the accumulating debts, the increased interests and simultaneous pressures on the members (units) of the Soviet block to repay loans hardened their budget constraints toward the West. Developments resulted in the re-exposure of bloc members to Soviet resource allocation. The Soviet Union, in turn, was entrapped between the growing allocation expectancies of those who were fed back within its own net, the allocation pressures exerted by the increasingly exposed block member states,

¹¹ Detailed justification why these countries pertain to the given patterns may be found in (Csanádi, 2003).

and its declined extracting capacity due to internal (national and bloc level aggregation and external (Western) resistance to contribute resources. These circumstances hardened reproduction constraints both within all units including the Soviet Union and within the bloc as the larger aggregation. Persistent hardening of domestic and bloc reproduction constraints parallel to hardening budget constraints in relation to the West strongly influenced Gorbachev's strategy within the bloc. He first made steps to raise resource extraction through stricter state level coordination of domestic production, direct investment contributions and encouragement of enterprise level connections among bloc states. His efforts in the larger aggregation, however, were resisted, in part because lower level units, facing their own hardening reproduction constraints were unwilling and unable to contribute¹².

The simultaneous hardening of reproduction constraints within the higher level unit, within the subordinated units and within the larger aggregation itself led to accelerated self-withdrawal (absolute shrinking) of the net in the bloc – of which Gorbachev was active promoter. The lifting of pressure by the larger unit within the larger aggregation dissipated the political capital of the sub-units, and this gave way to system collapses and transformation characteristic of the individual patterns both in Romania and Hungary. China was not directly influenced by those macro-conditions. The hardening reproduction constraints parallel to hardening budget constraints external to the net and thereby the acceleration of structure-conform measures emerged from the specifics of the Chinese party-state network and its dynamics from early 1990s.

ADAPTATION EFFORTS IN A SELF-EXPLOITING PATTERN: THE EXAMPLE OF ROMANIA

Hard currency debts have been accumulating all over Eastern Europe with similar difficulties of debt servicing. Poland was the first to negotiate a moratorium and Hungary and Yugoslavia also achieved extensions on their loans. Ceausescu found more resistance to obtain this extension as a consequence of his fading popularity in the international realm, driving him to domestic solutions. Moreover, the opposition to further extraction within the Self-exploiting structure was repressible. Due to these factors, Ceausescu decided to accelerate loan repayments instead of extending

¹² Valerie Bunce, "Decline of a Regional Hegemon: The Gorbachov Regime and Reform in Eastern Europe" *East European Politics and Society*, Vol. 3, No. 2 (Spring, 1989), 235-67.

them, accompanied by a campaign against “financial banking oligarchy” and “financial imperialism”.¹³

THE FURTHER DECLINE OF COHESION AND ESCALATION OF FORCED RESOURCE REDEPLOYMENT MEASURES

Decision on repayments provoked intensified extraction drives within the net, and thereby, the escalation of structure-conforming measures with intensified coercion and mobilization. Besides increasing internal pressures, Ceausescu shifted the emphasis of resource attraction efforts from outside the net to the larger bloc aggregation, the CMEA. Reorientation was further motivated by the negative balance of trade with oil producing developing countries. This has driven Bucharest to call for CMEA 'self-reliance' on energy and raw material sources, giving up hard currency imports from third countries. In 1983, the share of communist countries had risen from 40.5 in 1980 to some 53 percent. The shift however was very expensive: the Soviets showed little inclination to oblige and Bucharest had to pay for the oil in hard currency or in products of high economic value¹⁴.

Desperate resource attraction was extended to any opportunity. For example, in 1983 conflicts developed with the West over the heightening fees of emigration of Jews and Germans¹⁵. Ceausescu finally conceded to Western pressure, and negotiations ended with compromise. Trading relations with the more important Western partners were not disrupted, most favoured nations status was renewed, and loan was rescheduled¹⁶.

In early 1980s, strategies and measures invariably reflected the *stepped up extraction* drive and forced resource redeployment within the net. Ceausescu intensified mobilized participation and populist rhetoric and broadened the capacity of the net to overlap, control and mobilize. Under this policy the *density of interlinking threads* grew: one-third of the adult population had been explicitly drawn into the party membership¹⁷.

¹³ Michael Shafir, *Politics, Economics and Society: Political Stagnation and Simulated Change* L. Reiner Boulder, London, 1995 p.119; Martin Rady, *Romania in Turmoil: a Contemporary History* London, I.B. Tauris (1992), 148.

¹⁴ Shafir, 1985, p. 115-6

¹⁵ Giurescu, Dinu C. and Fisher-Galati, *Romania: A Historic Perspective*, East European Monographs, Boulder Distributed by Columbia University Press, NY (1998), 196.

¹⁶ Rady, 1992, p. 145.

¹⁷ Rady, 1999, p. 167.

Romania reached the highest ratio (14 percent) of party members within the population among the socialist countries¹⁸.

For *decreasing potential resistance* to increased extraction, Ceausescu also intensified cadre rotation. Rotation intensified overwhelmingly within the Party Secretariat and the Council of Ministers and among county first secretaries, especially concerning the strategic fields of production: mining, petroleum, agriculture and foreign trade. Demotions depended on Ceausescu's personal decision.

Also *resource extraction was intensified*: in 1982 food exports rose by 12.3 percent while import decreased by 66.8 percent.¹⁹ In 1983, in the framework of the New Financial Economic Mechanism, the minimum wage was abolished for workers with the introduction of accord global, and payment was tied to output in physical unit. Also the idea to lay off workers and closing down entire units was raised in the name of liberalization²⁰ – in practice, serving to get rid of burdens.

The drive to repay the foreign debt increased the hardships imposed upon the population to the extreme. The rationing of electric power reduced the daily supply in winter to one hour's worth of a single bar on an electric fire, and the gas pressure in Bucharest was often too low in winter to permit cooking. The maximum temperature allowed for factories and offices in December, was 44 F. Small private plots had to deliver their products to state procurement offices and could sell surplus goods only at state determined prices on the "free" market. By 1988 malnutrition, aids, environmental catastrophe has developed. The use of private cars was prohibited in the winter months. Restaurants closed shortly after nightfall.. Romanians could only obtain medicines listed on prescriptions for hard currency or through the services of relatives living abroad²¹.

By 1988, the authorities decided to forbid the use of refrigerators, vacuum cleaners and other household appliances, urging the population to store food outside during winter time, to refrain from using elevators and central heating, and so on. Street lighting, which had already been reduced in 1979, was cut off altogether in the countryside, while in cities only the main streets are (poorly) lit. Inspection teams were set up, and stiff penalties

¹⁸ Mary Ellen Fischer, *Nicolae Ceausescu : A Study in Political Leadership* Boulder : L. Rienner (1989), p. 256.

¹⁹ Rady, 1992, p. 141-2.

²⁰ Shafir, 1985, p. 124-6.

²¹ Rady, 1992, p. 64-6.

were applied to those caught infringing the regulations. Yet, official propaganda often makes reference to Ceausescu's rule as the 'years of light'²²

Also *physical redeployment* of a social strata began in the name of optimization of costs of production: from March 1988 'systematization' was introduced to reorganize the entire countryside by concentrating rural population in selected villages for optimization of agricultural production, urbanization and industrialization. Systematization, the liberation of land for agricultural purposes implied the reduction of the number of villages from 13,000 to 5-6,000, harming 11 million of villagers. Villages were administratively merged into larger units. Peasants were to be forced in collective large buildings (agro-industrial complexes) without pipelines.²³ From the complexes peasants would be bussed out to their collectives or nearby factories. Empty villages were to be erased and land cultivated for state farms. No list of the villages scheduled for removal was published, leaving the countryside in anxiety. Concrete decisions on selecting which villages to erase were politically rational – for example, minorities were targeted. Villagers were normally only given a notice of several weeks that their houses were to be destroyed. They were additionally required to undertake the work of demolition themselves as free manpower. The destruction of culture and cultural values and small-holding production with bulldozers was to be carried out by 2000.²⁴

Extraction of resources and forced resource redeployment reached even *those to be born*. In order to boost birth rate, abortion was forbidden for both women and livestock.²⁵

Extracted resources within the net not only served for repayment of foreign debts and the finance of heavy industry, but also served for grandiose investments to increase national pride, reflect the triumphs of socialism and Ceausescu. For that reason, Europe-wide admired historic quarters of Bucharest, regarded as incompatible with the victory of socialism, were destroyed, and massive redevelopment works in Neo-Stalinist style, controlled by Ceausescu himself, were carried out.²⁶

²² Shafir, 1985, p. 118.

²³ Rady, 1992, p. 68.

²⁴ Mark Almond, *Decline Without Fall: Romania under Ceausescu* (London: Institute for European Defense and Strategic Studies, 1988), 176-80.

²⁵ Rady, 1992, p. 70; Almond, 1992, pp. 182-3.

²⁶ Giurescu and Fischer-Galati, 1998, p. 198; Almond, 1992, p. 153-171.

CONSEQUENCES OF THE ESCALATION OF FORCED RESOURCE REDEPLOYMENT:
MOUNTING SOCIAL TENSIONS

Plans and implementation of systematization caused rapid alarm throughout Romania, local rebellions were reported. Accumulating tensions motivated scattered opposition (alleged military coup, popular protests) that were brutally put down. Anxiety over systematization combined with foreign attention and strong opposition gave courage to the dissident intellectual voices within Romania.²⁷

The escalation of the structure-conforming methods increased social tensions to the extreme within the net. Meanwhile, also the larger aggregation was shaking, ready to collapse. The consecutive collapse of the Polish and Hungarian and East German party-states, as sub-units of the larger aggregation and the non-intervention of Gorbachev to prevent their collapse, predicted the bloc's future. Gorbachev's domestic reforms and policies toward bloc members evaporated the political capital from behind Ceausescu's "threat ideology" and exposed the limits of his power. Ceausescu however defied all pressures, proclaiming in October 1989 "the eternal validity of his plans" for Romania.²⁸

Mounting social tensions and system collapses elsewhere in the larger aggregation, paired with the weakened position of Ceausescu from within and without, provided a *window of opportunity* and encouraged the expression of mass grievances.

The spark that soon set fire to the whole country, and where all the above developments came to a head, was born in Timisoara, a small city in Transylvania. Mass grievances deriving from a local conflict in Timisoara were soon turned into blood-shed by Securitate forces ordered by Ceausescu, who happened to be out of the country at that time, visiting Iran.²⁹

The Timisoara events were initially concealed from the public, as was the international breakdown of communist regimes outside of Romania. However, news on Timisoara also rapidly spread to Bucharest and caused public excitement. Ceausescu, unable, or unwilling to respond to the crisis, and possibly unaware of the final risk, turned to the usual instrument: mass mobilization. He ordered mass demonstrations supporting the system, and

²⁷ Rady, 1992, p. 75; Almond, 1992, pp.193-9.

²⁸ Giurescu and Fischer-Galati, 1998, p. 200.

²⁹ Vlad Georgescu, *The Romanians: A History* (Ohio State University Press, 1991), 476; Almond, 1992, p. 203-6 and 221)

especially himself, on the main square of Bucharest³⁰ As usual, about 100,000 workers from all over Romania were transported to the main square to applaud his speech and cheer. However, in vain he tried to deliver his talk. He was interrupted each time by the shouting of the crowd that turned against him. He was soon forced to flee from the building. The military defied his orders to shoot at the crowd, and so did part of the Securitate. The remaining faithful Securitate forces were insufficient to restore order. The party-state collapsed within hours in the face of the revolution. The National Salvation Front composed by disgraced old communists, dissident intellectuals and military leaders assumed the political leadership of the country. Ceausescu and his wife tried to flee but were arrested and shortly after sentenced and executed by a secret military tribunal.³¹

ADAPTATION EFFORTS IN A SELF-DISINTEGRATING PATTERN: THE EXAMPLE OF HUNGARY

The political developments in the Soviet Union in the mid 1980s and, consequently, Gorbachev's non-intervention strategy (Bunce, 1993) and the increased constraints in extracting and attracting resources within the structure and outside of it, led inevitably to the further weakening of the power structure's cohesion in Hungary. Usual scapegoats referring to external pressure did not function and increasing tensions were no more contained by the threat of Soviet intervention. This situation further contributed to the rapid decrease in the readiness to cope through the network both inside and outside the party. It increased the space for manoeuvre of those with dissenting views, the chances for surfacing of *intra-party* factional differences, and the emergence of *open conflict*³² about the acknowledgement of the crisis situation and the required solutions.

THE ECONOMIC CRISIS AND THE ACCELERATED POLITICAL DECENTRALIZATION AND DISINTEGRATION

³⁰ Georgescu, 1991, p. 281-2; Giurescu and Fischer-Galati, 1998, p. 201.

³¹ Rady, 1992, p. 117-9; Georgescu, 1991, p. 283; Giurescu and Fischer-Galati, 1998, p. 202-5; Almond, 1992, pp. 224-236.

³² Iván Berend, T. *The Hungarian Economic Reforms 1953-1988* Cambridge University Press, 1990, pp. 246-258.

The political leadership was reluctant to openly admit to the all-encompassing character of the crisis. Convertible debts rose from 2 billion of 1975 to 9 billion in 1980 and to 18 billion dollars in 1987, while the value of convertible exports stagnated at 5 billion dollars.³³ The younger generation within the party apparatus - mostly party technocrats - exerted strong pressure on the leadership to face the crisis, and clearly to establish the conservative leadership's responsibility for it. This same pressure was exerted by the younger, upwardly mobile technocrats within the Communist Youth Federation, the trade unions, as well as the state apparatus.³⁴ Independent scientific and literary circles took advantage of the general uncertainty openly to voice their criticism. In 1987, supported and fermented by the suggestions on stabilization and comprehensive reforms of an expert collective³⁵, the CC brought more radical resolutions that already comprised the change in the main elements of the structure.³⁶

Resolutions brought in the CC conference in 1987 however, were not implemented. Nevertheless, overall crisis situation forced the arrangement of a National Party Conference in May 1988, where those reacting to the crisis had initiated economic reforms and political ones aimed at democratizing the party's organization. Two critical political events occurred at the conference: one was the removal of János Kádár from his post as party First Secretary and his election to party President – a figure-head position. The other was the dropping of the oldest and most compromised members from the CC candidacy list, thereby preventing their re-election to the CC³⁷.

The CC recommended the decentralization of decision-making within the Party hierarchy. More concretely, to *decentralize inter-linking threads* through the decentralization of the nomenklatura, to make inter-linking threads scarcer through the reduction of the positions on the nomenklatura

³³ Rezső Nyers, Világgazdasági nyitás: gazdaságpolitikai fordulat és intézményi reform Átalakítás, piacgazdaság, stabilizáció. Szerk. Szamuely László, Sorozat szerk. Pulai Miklós (Opening to the World Market: a Turnaround of Economic Policy and Institutional Reform (Committee of Economic Reform lead by Rezső Nyers) Laszlo Samuely ed., series ed. by Miklós Pulai. Közgazdasági és Jogi Könyvkiadó, Budapest, 1989), 13.

³⁴ Erzsébet Szalai, Útelágazás: hatalom és értelmiség az államszocializmus után (Crossroads: Power and Intelligentsia after State-Socialism)Pesti Szalon Kiadó, Budapest, Szombathely, Savaria University Press, 1994)

³⁵ See their concept, named 'Turnabout and reform' (Fordulat és reform) in *Medvetánc*, Vol.7, No. 2, (1987), Supplement, 5-318.

³⁶ Berend, 1990, p. 257

³⁷ July 14, 1988 session of the CC, in *Népszabadság*, 15 July 1988, pp. 3 and 4.

list, and to *withdraw* inter-linking threads from state activities. The CC also decided to withdraw D₁ lines within the Party hierarchy, for example through secret ballot in the lower-level party organizations, multi-candidacy, and the possibility for the direct appointment of delegates for higher level committees. It emphasized the withdrawal of D₁ lines also within the state hierarchy through the need for freedom of information, for the formulation of the law on assembly and association, and the abolition of the official trade unions' monopoly. The decentralization and withdrawal (absolute shrinkage) of the net was further enhanced by CC conference that announced a turn towards a *mixed ownership* structure through the growth of the private sector and unconstrained market.³⁸ These measures further undermined inter-linking and intra-party dependency threads³⁹, while preparing the ground for the rise of horizontal coalitions thus far inhibited by the structure.

Central decisions were hard to enforce at lower levels under loosened cohesion and *prevailing resistance*. The arrangement of similarly decisive conferences at local levels became a long drawn-out power struggle, instead of automatic roll-down, and it took considerable time before they spread throughout the structure. For example, in Budapest it took almost a year for these local conferences to be held. In the counties where the party secretaries were stronger, the battles degenerated into cruder tactics. It was not by chance that at this time corruption within local party organs began to be revealed throughout the country fuelling the already high level of public ill-feeling towards the party itself.⁴⁰ Furthermore, parallel to the growing dissatisfaction and increasing crisis, the decentralization of the nomenklatura system continued. Fewer and fewer positions were kept on the CC nomenklatura list.⁴¹ Decentralization was also accompanied by a *streamlining* in party committees thereby decreasing feedbacks and through that, resisting capacities. This process was combined with the dismissal of many party secretaries within the enterprises. As a reaction to growing instability and uncertainty, those newly elected were no longer full-time party workers. All of them tried to find or keep their civil job within the enterprise. Dependence of those shifting or remaining in civil jobs became definitive when party secretaries within the organizations located in the district were also removed

³⁸ Berend, 1990, p. 292.

³⁹ Secretarial Bulletin of the HSWP CC, No. 1, CC Department of Propaganda and Canvassing, 1988 (M.Cs.).

⁴⁰ Csanádi, 1997, p. 248

⁴¹ Maria Csanádi, 'Hálózati feszültség. A párt és az állam kapcsolatrendszeré' (Network Tension. The Relationships between Party and State decisions) *Heti Világgazdaság* (1988) (weekly) August 27.

from the district nomenklatura, thereby withdrawing D₁ and D₂ lines. Those who were replaced either left or were given some low-level job within the enterprise (Interviews).

In July 1988 the CC decided to decentralize the nomenklatura still further,⁴² while retaining 435 mostly top leadership positions. The CC's decision called for the further decentralization of nomenklatura responsibilities for the respective lower levels of the party hierarchy. This tendency was reinforced in October 1988, when the Budapest Party Committee abolished its whole nomenklatura list (interview). This action further eroded the districts' possibility of enforcing their interests. In this way their positions were further weakened which resulted in further decentralization.

CONSEQUENCES OF THE ACCELERATED DISINTEGRATION: SEQUENTIAL POLITICAL TRANSFORMATION

As a consequence of the extremely rapid loss of cohesion, and decentralization, the *closed channels* along the D₂ inter-linking threads *opened*. The political capital behind the various regions, activities, organizations, and decision-makers either partially or totally vanished. The individual spheres were liberated from the politically monopolized dependence. Accumulated tensions which atomization caused by the net had hitherto suppressed broke loose and came to the surface. As a result, *distortions* which had formerly been hidden by the system's cohesion, and which were derived from the form-fitting of reform measures, or which were caused by the effects of political rationality considerations on otherwise non-political decisions, *now came into the open*.

The obvious sign of the breaking threads, the exposed distortions, and the now uncovered tensions was the significantly increased incidence of *horizontal organizations* and the concomitant appearance of pressure groups of various sizes, either via the utilization of long-forgotten rights within the traditional institutions, or in spite of these. These groups presented their interests and demands more and more forcefully either within official organizations or inter-organizational circles, or outside of these.

In the course of these events, the party lost all its capacity to influence the economy. The staff in the party apparatus that was dealing with enterprises and other economic organizations was left without functions. The only remaining threads through which enterprise decision-making could be influenced were those of the instructor system overlapping organizations,

⁴² July 14, 1988 session of the CC.

which was weakened considerably in 1986 and those of the party discipline of the party members who were in key positions and in weakened party cells within the enterprise. These, however, proved quite ineffective in an environment where the nomenklatura as an instrument of existential dependence ceased to exist and where there were no more resources to redistribute.

With the breaking of the inter-linking threads the now superfluous *party apparatus itself* began to disintegrate. Simultaneously with this process, all those feedbacks, which came into being via the utilization of the inter-linking threads or the D_1 dependency threads within the party hierarchy, became ineffective. The intensity of the activities within the network shifted from the traditional inter-linking threads towards those within the state hierarchy.⁴³ In this way the continuing weakening of the inter-linking threads changed the power relations within the structure: it increased the power of the state hierarchy and the privileged circle narrowed to those that still had remaining feedback connection to higher levels of the state hierarchy.

The precipitous disintegration of the power structure was further enhanced by the high-speed *withering away of the D_1 dependency threads* within the party hierarchy. Parallel with the cessation of the monopoly situation and the loosening of the cohesion, the intra-party power conflicts also came into the open, intensified, and spread throughout the party hierarchy. On the basis of the interest differentiation within the party, concomitant with the disintegration of the power structure, the process of political party formation also began inside the party itself. Interests were initially manifested as differences of opinion, then as trends, and later as concrete and competing platforms. A party split became imminent.⁴⁴

The high speed of disintegration of the party apparatus, its instruments and functions was shown by the fact that the speed of events was outstripping that of the decisions. The party apparatus was reduced, and the institution of full-time party secretary was suspended only when its influence had already significantly decreased. The possibility of establishing platforms within the party began only to be formally declared once the various factions had begun

⁴³ Szalai, Erzsébet, "The Power Structure in Hungary after the Political Transition". In: Chris Briandt and Edward Morewsky (eds), *The New Great Transformation? Changes in Eastern Europe* (London and New York: Routledge, 1994)

⁴⁴ Kéri, László *Az egypártrendszerrel a szabad választásokig Magyarországon: a Kádár korszak felbomlása 1985-1990 (From One-party System to Free Elections in Hungary: The dismantling of the Kadar Era, 1985-1990)* Társadalomtudományi Intézet (Social Research Institute Series), Budapest, May-June

openly to establish their individual mass following. The question of Communist Party legitimacy was put on the agenda only when the new parties were already mushrooming. The legitimacy of the party's power over practically every type of social organization and position was put on the agenda only once a whole host of new, independent associations, trade unions, economic and social interest groups had been formed without having inter-linking threads. Many special concessions to the favoured were only abolished when there really were only a comparatively small number of privileges left to go round. The legal foundations of party organizations within non-party institutions began to be questioned, once their capacity to influence and their mediating role had significantly decreased. The party apparatus had already lost the bulk of its functions, and its staff were busy seeking other, non-party jobs, when still no official position had been formulated on the role of the party apparatus in the given situation. Finally, discussion of the issues surrounding the party's nomenklatura system reached the agenda when this system was already serving a function opposite to what had been originally intended. This time the party was no longer governing resources through the direct connections afforded by the nomenklatura system but had become, instead, a prisoner of the general crisis situation.

At the high speed of the disintegration of the party's power, a further element of the party-state, the state-monopolized economy began its process of disintegration. Steps were taken for introducing or extending the rule of law in economic operation. Several bills were passed concerning economic transformation. Some of them were passed many years before the collapse, others passed at the eve of the collapse by the reformist leadership. These laws were enhancing the disintegration process, easing the transformation and smoothing system collapse⁴⁵. Towards the end of 1988, the inter-linking

⁴⁵ For example, the law on joint ventures with foreign capital, though with several limitations was introduced already in mid 1970s. In 1982, considerable legal possibilities were created for small-scale entrepreneurs, although with various constraints. In 1984, the appointment of managers was decentralized to enterprise committees, two-tier banking system was created in 1987 separating former commercial and monetary functions of the National Bank, in 1988, an Act on Business Organizations was created, a Company law was passed in 1989 allowing private companies to issue shares and employ up to 500 people, and possibilities were created for SOEs to become private, and corporations and be owned up to 50 percent by foreign companies, 1988 a comprehensive tax reform was introduced and in 1989 producer goods import prices were liberalized and further extended in 1990 and 1991. In 1989/90 the first comprehensive law on privatization of SOEs was passed and also the employees right to strike and the employers' interest representation bodies and trade unions as social organizations were regulated in 1989. The stock exchange

threads were already incapable of overlapping the economic sphere, let alone the social and political spheres. In response to all these changes, pressures, and instability *official ideology began* to change: the Politburo in October 1988 displayed increasing tolerance towards emerging new political and economic interest groups. It set very easy criteria for the acceptance of alternative movements by the party and allowed party members to join these movements⁴⁶. Indeed, the party even offered them political alliance.

At its meeting in early February 1989 the CC accepted the need for political pluralization and a *multi-party system*. At this crucial meeting it made a historic declaration: it acknowledged that it regarded the events of 1956 not as a counter-revolution, but as a popular uprising in which the forces of democratic socialism were also present⁴⁷. This announcement retrospectively called into question the legitimacy of the system, given the bloody repression of the 1956 uprising with the help of Soviet military forces. At this mid-February meeting the CC recorded that the HSWP had renounced its claim to a leading role position, and had declared that it wished to become a political party. In March the Budapest PC suggested the total abolition of the nomenklatura system⁴⁸. This same body in April also publicly defended the developing horizontal organizations of the various kinds of reform groups within the party⁴⁹, though these were incompatible with the principles of hierarchy. This also led to the reluctant acceptance of the earlier outright rejected principle of competing platforms.

In May 1989 the CC initiated the total abolition of the nomenklatura system. It declared that it wanted to practice its jurisdiction only over party positions. The other important resolution of this meeting was the reversal of its earlier decision on the party leadership over the workers' militia (due to popular pressure) – which was its armed force established in 1956⁵⁰. With these steps the legitimacy of party groupings within organizations was further weakened, as was that of the militia. The suggestion to shift the headquarters from

was also established in 1990 and in the same year the competition law was first drawn up Swaan, Wim *Behaviour and Institutions under Economic Reform: Price Regulation and Market Reform in Hungary* Thesis Publishers, Tinbergen Institute Research Series, Amsterdam, 1993).

⁴⁶ "The October 4, 1988 meeting of the HSWP PC", in *Népszabadság*, 5 October 1988.

⁴⁷ "The February 10-11, 1989 meeting of the CC", in *Népszabadság*, 13 February 1989.

⁴⁸ "Interview with the First Secretary of the Budapest PC", in *Népszabadság*, 18 March 1989.

⁴⁹ Arguments about political initiatives, criticism, freedom of opinion, views, and intra-party debates, and about the freedom of platform formation. Party Debates, (HSWP CC Department of Propaganda and Canvassing, 1989, No. 3).

⁵⁰ "The May 3, 1989 meeting of the CC", in *Magyar Nemzet*, 10 May 1989.

enterprises to territorial organizations, however, still faced resistance. The greatest – and well-founded – fear of the party organizations in shifting scope was that in the event of territorial organization, they would lose a large proportion of their membership. This fear was well grounded.

During the process of disintegration, amidst increasing internal and external tensions, the power elite became more and more uncertain of itself and more receptive to reform pressures from within and outside the net. A reform committee suggested sweeping changes in economic policy: opening up to world market and integrating the Hungarian economy to that market, a radical economic reorientation away from the bloc and from the subordination of the domestic production to Soviet import interests. The committee also recommended the democratization of the social and political institutional system and the reform of property relations, both of which would enhance popular support.⁵¹

At the behest of the increasingly vocal opposition groups and the internal opposition of the Hungarian Socialist Workers Party (HSWP) itself, negotiations began in May 1989 between the government and the new political groupings. The talks gained more and more weight, and legitimacy gradually shifted from the Parliament to the scene of these negotiations. Within weeks, the agreements reached here became important items on the Parliament's agenda. No longer could the Parliament debate bills without these having first been passed and/or amended by this extra-Parliamentary forum. Noteworthy among these were the amendments to the constitution and the so-called crucial laws formulated through tough negotiations: the freedom of information law, the party law, the electoral law, and many other important amendments to current laws.⁵²

Following the agreements, the remaining threads holding the structure together became strikingly contradictory to the accepted changes. During the first eight months of 1989, 68,000 people left the HSWP, whereas only 2,600 entered, leaving 725,000 party members out of the 790,000 of the previous year⁵³. In October 1989, on its last Congress, the HWP was newly formed as a political party (Hungarian Socialist Party). It entered the parliament after free elections in early 1990 as a small opposition party bearing one tenth of its former party members.

⁵¹ Nyers, 1989, pp. 11-35

⁵² Report on the 27-30 June 1989 session of Parliament, in *Magyar Nemzet* and *Népszabadság*, 1 July 1989.

⁵³ *Népszabadság*, 4 October 1989.

ADAPTATION EFFORTS IN A SELF-WITHDRAWING PATTERN: THE EXAMPLE OF CHINA

PRE-EMPTYING PROCESSES

The acceleration of the self-withdrawing measures began in early 1990s, after a short period of central retrenchment, and gained impetus in the second half of the 1990s. The retrenchment was one in the series of the repeated similar actions undertaken from the end of 1979s, owing to the dynamics in the given distribution of power, ending up in frequently hardening reproduction constraints. This move was reinforced by the political stabilization drives due to collapse of the Soviet bloc and the Tiananmen event. Acceleration efforts were directed at compensating the radical economic slow-down that resulted from the previous resource centralization efforts. The new measures that deemed to revive the economic activity paved the way for the accelerated transformation of the net.

The party reencouraged the spreading of Township and Village level Enterprises (TVEs) that were formerly hindered. This process, while making interlinking and hierarchical threads denser, indirectly enhanced the growth of the field outside the net through the TVE's activity. The party acknowledged the existence of a socialist market economy, jettisoned the central planning as a mechanism for resource allocation. New laws were passed concerning state owned enterprise (SOE) activity increasing its decision-making capacity and communication with the market. Authorities have also set the legal framework for the infiltration of foreign capital into the net by allowing joint ventures and limited liability companies and prescribed the transformation of state enterprises into company form. They also allowed the cutting of economic units from the net through bankruptcy and the lease or selling off of smaller enterprises, a process that has already started without central consent.

Despite decentralizations and the increase of the field outside the net, causing the relative shrinkage of this latter, the reproduction constraints within the net further hardened due to the pattern dynamics. Consequently, revenue centralization efforts re-emerged, parallel to the decentralization of expenses and increasing economic liberalization. In 1994 a major general tax reform was introduced to redirect resources to the center and decentralize burdens to the local governments. As a consequence of this one-off redistributive action the center's share increased from 22 to 56

percent.⁵⁴ Meanwhile, the distribution of expenditures remained unchanged.⁵⁵ These circumstances further hardened local governments' reproduction constraints and as a reaction, it accelerated the absolute shrinking of the net at lower levels⁵⁶.

ACCELERATING ECONOMIC TRANSFORMATION AND WITHDRAWAL

By mid 1990's foreign firms together with rural enterprises already accounted for more than half of China's industrial output.⁵⁷ Either as green-field investment outside the net or entering the net, the increase of domestic and foreign private capital exerted competition pressure on SOEs and TVEs. The hardening budget constraints of SOEs and TVEs coincided with their increasingly hardening of reproduction constraints within the net. Due to the self-reinforcing tendency of the simultaneous occurrence of hardening reproduction and budget constraints, the absolute shrinkage and weakening of the net further accelerated. By 1996, partly as a consequence of the tax reform, partly due to competition pressure outside the net economic growth was again *slowing down*: this did not only concern SOEs but also collective enterprises. Profit rate of collective enterprises (most of them rural): dropped from 26.5 percent in 1980 to 8.2 percent in 1996, while that of SOEs dropped from 24.9 to 6.5 respectively⁵⁸. Concerning SOEs, after 18 years of gradual transformation their share in China's total industrial output has precipitated from 77.7% in 1978 to 28.8% in 1996⁵⁹. The share of employment in SOEs in 1996 was 57.4% of the urban workers. SOEs possessed 52.2% of total investment in industrial fixed assets. As a

⁵⁴ Wong, Christine. 2002. China National Development and Sub-national Finance: A Review of Provincial Expenditures. Report No. 22951-CHA, April 9, p. 37.

⁵⁵ Li Keping and Xiang Zhongxin, *Intergovernmental Financial Distribution Relations in China: a Case Study*, Manuscript, Institute for Comparative Political and Economic Studies, p. 11.

⁵⁶ Csanádi, Maria and Hairong Lai. *The Transformation of the Chinese Party-state on National, Prefecture and County levels* Working Papers, WP 2003 No 11

⁵⁷ Cao et al, 1999, p. 119

⁵⁸ Russel Smyth, 'Recent Developments in Rural Enterprise Reform in China: Achievements, Problems and Prospects', *Asian Survey*, Vol XXXVIII. N. 8., 1998, pp.784-800 at p. 785.

⁵⁹ Large scale SOE consisted 5.6 of SOE in terms of number in 1996, contributing 63.3% of the gross output value of the SOEs (Justin Yifu Lin, Cai, Fang and Zhou Li, 'Competition, Policy Burdens and State-Owned Enterprise Reform', *American Economic Review*, May 1998 (Papers and Proceedings), Vol. 88, No. 2, pp. 422-27, at p. 425).

consequence of constraints on resource extraction, the share of direct subsidies to loss-making SOEs in the GDP declined from its 1985 height (5.66%) to 0.27% in 2001⁶⁰. They were losing money, in spite of the large amounts of implicit subsidies from low interest loans and other policy protections.⁶¹ Overall, in 1996, 23 percent of the 390,000 enterprises reported losses⁶². Losses in 1996 were suffered by 38 percent of SOEs, 40 percent of large and medium-size SOEs, 60 percent of small SOEs, 18 percent of collectives and 34 percent of "other" enterprises⁶³.

According to some experts, as a result, at the end of the 1990s, *competition pressure on SOEs* reached a new level. It had greater effects on SOEs supervised by local government than on those supervised by the central because of local SOEs are frequently in competitive industries where the non-state firms entered.⁶⁴

Cutting off liabilities from the net

Hardening reproduction constraints enhanced by hardening budget constraints from outside the net accelerated the privatization process. By the end of 1996 up to 70% of the small enterprises had been privatized in pioneering provinces. Many provinces have completed the change of ownership in more than 50 percent of their small and medium sized SOEs on county level.⁶⁵ By 1996 some pioneering counties had privatized almost all of the state-owned enterprises under local supervision. By 1997, most counties in the country had progressed to privatize more than half of the state-

⁶⁰ *Guoyouqiye Shichanghua Jincheng Yanjiu* (A Research on the Marketization of SOEs), by research team on the development of Chinese market economy, Institute of Economic and Resource Management, Beijing Normal University, 2002. *Source*: http://www.snweb.com.cn/gb/people_daily/2002/12/14/f1214001.htm

⁶¹ Lin, Cai and Zhou Li, 1998, p. 426.

⁶² Garry H. Jefferson, and Thomas G. Rawski, 'Ownership Change in Chinese Industry' in *Enterprise Reform in China: Ownership, Transition and Performance* ed. G. Jefferson and Inderjit Singh World Bank Research Publication, Oxford University Press, 1998 pp. 23-42, at p. 35.

⁶³ Jefferson and Rawski, 1998, p. 35; Cao, Y., Y. Qian and B. Weingast, 1999. From Federalism, Chinese Style to Privatization, Chinese Style. *Economics of Transformation* 7 (1): 103-131, at. 122.

⁶⁴ *Qian and Roland*, 1998 p. 1157.

⁶⁵ *Cao et. al*, 1999 p.109.

owned enterprises under local supervision.⁶⁶ Unfortunately there are no aggregate data on privatization. We can estimate the scale only from the reduction of the number of small industrial SOEs. From 1995 to 2000, the number of small industrial SOEs dropped to its half, from 72,000 to 34,000. The difference is 38,000 that had been either privatized or liquidated, or merged.⁶⁷ The tendency of the privatization is suggested by the comparison of the tables showing the rate of decline in the number and employment of SOEs on county, prefecture and province levels in 2000 compared to 1994.⁶⁸ The rates of decline decrease step by step upwards the hierarchical administrative levels⁶⁹. This also means that the process is gradually spreading from smaller to larger enterprises, owing to the fact that increasing sized enterprises are in general subordinated to increasing rank of authority. Moreover, reproduction constraints are softening towards higher ranks and larger enterprises which add to the tendency of upward spreading.

The 15th Party Congress in September 1997 took the lead of the above dynamics. In the Congress Ciang Co Minh declared that *state owned industry should be decreased*. He announced that China would be undertaking massive privatization of its SOE sector.⁷⁰ China would privatize 369,000 SOEs.⁷¹ In fact, this was the formalization and acceleration of the upward spreading process that begun five years earlier. A report in the official China Securities in November 2000, citing a survey by the National Bureau of Statistics, predicted that SOEs would eventually withdraw from most industrial sectors, while the state would retain control over a few key areas. A state monopoly should be retained in 15 sectors, including military industries and electricity output⁷²

The withdrawal of the holders of dependency lines

⁶⁶ Yingyi Qian, and G. Roland.. "Federalism and Soft Budget Constraint". *The American Economic Review* 88 (5): 1143- 62 (1998), at p. 1157.

⁶⁷ World Bank Interview, 2002

⁶⁸ Csanádi-Lai 2003: Appendix 4, 9 and 15.

⁶⁹ These numbers however are somewhat misleading, since each level contains cumulated numbers of the given aggregation. If cumulative effect would be steered, rates of decline upward the levels would be even smaller, following subordination.

⁷⁰ Wing Thye Woo, "Why China Grew" in *Emerging from Communism: Lessons from Russia, China, and Eastern Europe* ed. Boone, Peter, Stanislaw Gomulka, and Richard Layard (MIT Press Cambridge, MA, London, 1998) pp. 153-182, at 180.

⁷¹ Woo, 1998, p. 155.

⁷² SOE restructuring accelerates *Economist Intelligence Unit, a U.K.-based information provider, Chinaonline* 6 December 2000.

Competitive pressure and efforts to get rid of burdens incited further changes in the net besides decentralization and cutting off liabilities: also *those holding* these lines are disappearing. Empirical survey suggests that by early 2000s either distributive state functions were emptied or organizations bearing those functions were merged or eliminated at different levels and aggregations of the structure⁷³.

The vertical dependency lines within the state sphere of the net became scarcer (merger of supervising organizations) and have shrunk radically. The shrinkage took place by cutting functions, organizations, resources and discretion besides cutting off targets from functions. These developments occurred at higher and lower levels too. The retained tasks and functions of the remaining organizations became decentralized along the levels of the hierarchy and authorities became less interventionist and with decreased power, for lacking distribution potential.

The interlinking threads of the party towards the enterprises and the state bureaucracy became also radically scarcer besides many were left in limbo. The remaining party linkages to the state and SOEs and TVEs – even if strongly bound – are attached to a weakening state in its capacity of extraction and distribution within the net. Both intra- and cross-hierarchy feedbacks became scarcer and the remaining ones weaker as a result of the weakening of the hierarchical and inter-linking dependency threads, and the declining capacity to distribute resources within the net.

New party-state organizations emerged to carry out the self-withdrawal themselves in the economy. Traditional party organisations are also engaged in leading self-withdrawal at township and county levels by organising county and township semi-free elections and free elections at village level.⁷⁴

WEAKENING OF THE NET BY INVITING PRIVATE CAPITAL TO ENTER AND SEEING OFF STATE ASSETS

The competition pressure from outside the net, the hardening reproduction constraints within the net, incited the drive for accelerated privatization, closedown and lay-off. However, when foreign or domestic capital *entered* the net, it also brought about the *weakening of the remaining inter-linking*

⁷³ Csanádi and Lai, 1993

⁷⁴ Hairong Lai, “Development of Competitive Elections since mid 1990s on Township Level in Sichuan Province in China” *China Perspectives*. 51 Hong Kong, (2004), 13-27.

threads connected to the economy. In joint ventures, party secretaries are not allowed to sit in the board of directors as such. They potentially have a voice through the trade union, especially since the Party Secretary is often simultaneously the trade union leader. In Guangdong and the Special Economic Zones had succeeded in eliminating Party influence or activity. By 1995, in Guangdong the Party was essentially absent from joint ventures.⁷⁵ Same process is occurring parallel to the withdrawal of state shares in share holding companies.⁷⁶

At the end of the inter-linking and hierarchical lines not only close-down and privatization puts an end to the concrete function of the hierarchical and inter-linking threads, neither only private capital entering the net weakens it. An opposite process is also contributing to the weakening of the net: the fled of state values by the emptying of the rigid structures. In other words, the transferring of state assets outside the net through asset stripping went steadily further. Already in December 1995, the State Administration of State Property reported that asset stripping in the SOE sector is large.⁷⁷ This process accelerated to such an extent that the State Council formed a leading group under the direction of then Vice Premier Zhou Rongji to examine the issue. Assets are being drained through various avenues such as joint ventures, between state and non-state firms.⁷⁸ The process is reinforced by the continuous flee of individuals with convertible expertise and competitive enterprise units outside the net.

INVARIABLE MECHANISMS AND RATIONALITY WITHIN THE REMAINING NET

It appears, however, that competition pressures, decentralization, weakening and withdrawal of the net, does not necessarily imply the change of rationality and priorities within the remaining net. In the shrinking net decision-makers adapt with the narrowing of the circle of those privileged. The prevalence of political rationality and operating principles is suggested by several factors: the remaining nomenklatura; the

⁷⁵ Margareth M. Pearson, *China's New Business Elite. The Political Consequences of Economic Reforms* (Berkeley, L. A. London, University of California Press, 1997), 69-70.

⁷⁶ "Fortune": Inside the *New China* A Special Report. 1999. Oct. 11. No. 19. pp. 50-86).

⁷⁷ Woo, 1998, p. 177. The author refers to ("State Drain Must End" China Daily, Dec. 13, 1995, see also "State Toughens Stand to Protect Its Possessions" China Daily, June 2, 1995; "Asset Checks Can Stop Fiddles" China Daily, June 7 1995; "Market Investigated for Losing State Assets", China Daily, June 2, 1995.

⁷⁸ *Smyth*, 1998 p. 798.

political selectivity of the governments' economic policy orders to the establishment of Large Enterprise Working Committee (LEWC)⁷⁹ under the Politburo to hold the nomenklatura of selected strategic enterprises⁸⁰ at central and lower levels and its gradually accumulating resource distributing discretions by concentrating the approval of large investments; the political criteria in the selection of enterprises 601 enterprises for dept-equity swaps from the 6.600 loss-making ones.⁸¹ Lately, in early 2003, Economic and Trade Commission (ETC) and LEWC and some sections of the Planning Office merged under the new name of State Owned Asset Management Commission. The merger explicitly concentrated the assets and the nomenklatura of the most important enterprises.⁸² All the above on the one hand, suggest that the absolute and relative shrinking and weakening of the net makes the selection stricter but does not change the selection criteria within it. However, on the other hand, the fact that these enterprises are being put on the stock market without purchaser constraints provides a further support to the idea of upward spreading privatization.

The spreading of hardening reproduction constraints within the net, the competitive pressure by the field outside the net and capital infiltrating the net and the flee of competitive units and persons outside the net contributes to *acceleration* of the characteristic dynamics. They incite increasing efforts and simultaneous difficulties of resource extraction on central level, and with that, to the acceleration of absolute and relative shrinking of the net on national level. This process, in turn, further accelerates the spreading of hardening reproduction constraints within the net on lower levels. Due to this dynamics, while within the net principles of connection of party-state elements remain unchanged, *characteristics* that define the *principles of operation* of the party-state *are vanishing*: dependencies, interest promotion and extraction and distribution of resources *are not any more monopolized* and the transformation of the economy is taking place at growing speed.

CONCLUSIONS

⁷⁹ The members of this committee were selected from the leadership of the 10 abolished ministries (World Bank, interview 2002).

⁸⁰ From within them, the leadership of a smaller number of even more important enterprises is nominated by the CC's Organization Department and appointed by the Politburo.

⁸¹ Interview, World Bank, 20002

⁸² *Li Rongrong*, head of the commission, talked with his counterpart in South Korea, *Workers Daily*, July 8, 2008.

Through the introduction of a comparative party-state model, and within that, the three patterns of power distribution we have demonstrated that the dynamics of reproduction and instruments of self-reproduction are pattern conforming. Accordingly, the paths for transformation are also pattern-conform. The different room for manoeuvre is defined by those structural and dynamic specifics in time, space, different aggregation and conditions of the structure. Due to these specific structural and dynamic constraints, the capacity of party-states to learn or deviate from their path is limited and also uneven. When external pressure for adaptation increases this escalates the implementation of pattern-conform measures that accelerates pattern conform disintegration, collapse and transformation.

The three countries as examples of the three specific patterns of distribution of power within the IPS model show different degrees of adaptability and different permissiveness towards adapting efforts that deviate from pattern-conforming measures.

In the case of Romania, as a system of weak internal resisting capacity of the actors, the dynamics of the pattern and the dominant, politically rational strategies worked hand-in-hand to the last breath reacting to persistent hardening of reproduction and budget constraints. The escalation of structure conforming instruments (forced resource redeployment) did not dissolve the system but increased tensions to the extreme, while the slight move towards economic liberalization was soon form-fitted. Mounting tensions opened up the system to collective dissent and the lack of adaptive capacity ended up in drastic system collapse when window of opportunity emerged.

In the case of Hungary, as a system with strong feedbacks, the persistent parallel hardening of reproduction and budget constraints increased adaptation pressures. Efforts to re-centralize economic decisions over resources were form-fitted to power relations and pressures escalated instead the frequency of decentralizing reforms, without the capacity to deviate from forced allocation paths. On account of the difficulties in revealing resources, the impact of the reforms in conserving the self-supporting mechanism by providing new resources weakened, whereas their structure-loosening effect strengthened. The pattern-dynamics overrode strategies: instead of adaptation, the increasing frequency of reforms led to accelerated disintegration of the party, the wakening of interlinking and hierarchical ties of the party and the emergence of horizontal links of opposition. Escalating reforms could no longer renew the cohesion of the power structure, but instead they contributed to its smooth collapse.

In the case of China, the growing frequency of hardening reproduction constraints escalated first resource-creating reforms and through that the relative shrinkage of the net by increasing the field outside of it that mounted competitive pressures. Competitive pressures further enhanced the hardening of reproduction constraints within the net that besides accelerating decentralization and disintegration, it escalated its absolute shrinkage through the privatization, closedowns and the transgressions outside the net to get rid of burdens. With decreasing resources to distribute and extract from within the net and targets disappearing from the end of the links, state functions and organizations emptied and were wind up, interlinking threads weakened, were left in limbo or were withdrawn, shrinking the net absolutely.

All in all, the market competition pressure on party-states through the simultaneous hardening of reproduction and budget constraints, enhance adaptive behavior. However, based on the above, we suggest that *adaptation* of party-state systems is *self-consuming* since pattern dynamics increase pattern-conform measures rather than adaptive market behavior. The sequence of self-consuming differs according to patterns: transformation in Self-exploiting pattern begins with systemic collapse followed by parallel political and economic disintegration and transformation. Self-disintegrating pattern begins with disintegration and transformation of the political power, followed by the transformation of the state and state-owned economy after systemic collapse. The self-withdrawing pattern starts with the disintegration and transformation of the state and state-owned economy parallel to partial-spreading collapses. The limited adaptability point to the limited learning capacity of party-states, though to different degrees in the three patterns. Depending on patterns, adaptation efforts end up in increased tensions and violent collapse in the Self-exploiting pattern, in disintegration and smooth collapse in Self-disintegrating pattern and in disintegration and withdrawal of the net and thereby partial-spreading collapse of the net in the Self-withdrawing pattern, while a new system begins to evolve. Due to specific pattern dynamics, the first two patterns are accompanied by economic crisis, the third by economic growth external to the net. Meanwhile, within the waning net, political rationality of behavior and selection criteria do not change in any of them. Economic policy strategies are constrained by structural and pattern specifics: they may accelerate or slow down pattern dynamics but cannot alter it. Alternatives emerge *within* patterns and not among them. Therefore, tendencies in one pattern *do not forecast* those in the other pattern.