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HUNGARIAN ACADEMY OF SCIENCES

MŰHELYTANULMÁNYOK **DISCUSSION PAPERS**

MT–**DP.** 2004/6

BUDGET CONSTRAINTS IN PARTY-STATES NESTED IN POWER RELATIONS: THE KEY TO DIFFERENT PATHS OF TRANSFORMATION

MÁRIA CSANÁDI

Institute of Economics
Hungarian Academy of Sciences

Budapest

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Budget constraints in party-states nested in power relations: the key to different paths of transformation

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BY MÁRIA CSANÁDI

Abstract

This paper revisits the widely known and used concept of soft budget constraints in party-states introduced by Kornai *(1980), from the point of view of a comparative analytical model (*Csanádi, 2003*). It embeds budget constraints in the structure of power relations described by the model as the interactive structure of interrelations between party-, state- and economic decision-makers on the level of individual actors. In this respect, we argue, that soft budget constraints will acquire several new structure-specific traits presented in the paper that are worth to consider. The new properties of budget constraints nested in power relations will define the selectively soft and hard constraints of self-reproduction of the net. The distribution of power will define the dynamics of reproduction of the structure as a whole. The differences in the distribution of power will be responsible for the frequency of its hardening reproduction constraints. Soft and hard reproduction constraints and its dynamics in different power distributions will contribute to several theoretical conclusions concerning the self-similarities and structural differences in the operation and different paths of disintegration, collapse and transformations of party-states.*

Key words: *communism, socialism, party-state system, comparative model, soft budget constraint, selectivity, reproduction constraints, disintegration, collapse, transformation*

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CSANÁDI MÁRIA

A HATALMI SZERKEZETBE ÁGYAZOTT KÖLTSÉGVETÉSI KORLÁT A PÁRTÁLLAMBAN: KULCS AZ ELTÉRŐ ÁTALAKULÁSI UTAK MEGÉRTÉSÉHEZ

Összefoglalás

*Ez az írás újraértékeli a Kornai János által 1980-ban bevezetett, és azóta széles körben használt puha költségvetési korlát fogalmát egy összehasonlító analitikus modell szemszögéből (*Csanádi*, 2003). A költségvetési korlátot a hatalmi viszonyokba ágyazza, amelyet a modell a párt, az állam és a gazdaság egyéni döntéshozói közötti interaktív kapcsolat szerkezeteként ír le. Ennek fényében a puha költségvetési korlát számos új vonással gazdagodik, amelyet érdemes figyelembe venni. A költségvetési korlát új tulajdonságai segítségével egy új fogalmat vezetünk be: a szelektíven puha és kemény reprodukciós korlátét, amely a hatalmi szerkezet újratermelődésének feltételeit jelzi. A hatalom eloszlása meghatározza az egész szerkezet újratermelődésének dinamikáját. A hatalom eloszlásának eltérései befolyásolják az újratermelődés kemény korlátba ütközésének gyakoriságát. A puha és kemény reprodukciós korlát és annak eltérő hatalmi szerkezet szerinti dinamikája számos olyan elméleti következtetéshez járul hozzá, amely a bomlás, összeomlás és átalakulás eltérő pályáit s a fellelhető hasonlóságokat a hatalmi szerkezeti háttér, s annak dinamikája szemszögéből magyarázza.*

INTRODUCTION[1]

This paper revisits the widely known and used concept of soft budget constraints in party-states introduced by Kornai (1980), from the point of view of a comparative analytical model (Csanádi, 2003). It embeds budget constraints in the structure of power relations described by the model as the interactive structure of interrelations between party-, state- and economic decision-makers on the level of individual actors. In this respect, we argue that soft budget constraints will acquire several new traits that are worth to consider. The new properties of budget constraints nested in power relations will define a new concept: the *selectively soft and hard constraints of self-reproduction*. Soft and hard reproduction constraints and its dynamics in different power distributions will contribute to several theoretical conclusions concerning the *structural background* of the *different paths* of disintegration, collapse and transformations of party-states.

THE DEFINITION OF BUDGET CONSTRAINTS

Since the time Kornai introduced the concept of soft budget constraint his theory fertilized the thoughts of a wide scientific community, dealing with socialist economies, post-communist transformation and developed market economies. Lately, based on the above, the universal traits of budget constraints were defined (Kornai, Maskin and Roland, 2003). However, since the main goal of this paper is to define the specific structural background of soft budget constraints in party-states and their transformation, we shall only focus on those factors which according to Kornai's theory, introduced in 1980 and complemented until 1992, characterize soft budget constraints related to party-states[2]. Accordingly, we shall only examine the character of the institutional environment Kornai sets for party-states.

Kornai, defines the phenomena of soft budget constraint as a situation when enterprise expenditures outgrow its budget constraints… the enterprise receives external support (Kornai 1992: 140–143). This support may appear

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[1] The two tables pertain to my book under submission *(Csanádi, 2003*). The figure first appeared in English language in *Csanádi,* 1997*b*.

[2] In case the concept developed, or was extended, I will always use the latest version. This does not imply the universalized concept of soft budget constraints (*Kornai, Maskin* and *Roland, 2003*) where the institutional embeddedness became less emphasized.

in several forms, provided by several institutions (central, local governments, banks, and other enterprises). Budget constraint is soft when not even deficit precludes long-term survival of an economic unit (Kornai, 1980: 109). Kornai states that soft budget constraints evolve in a bilateral relationship. This refers to the behaviour of state owned enterprises towards the state (or other supporter). It implies the hierarchical relationship of two separate parties of different status: the state owned enterprises – and later other economic entities) as pleaders and targets of resource extraction, and the state as distributor or extractor. However, from these activities the emphasis lays on the pleading and allocation (Kornai, 1992: 140)[3]. This relationship is not limited to one action but implies long-term experiences. These latter are not accumulated through individual but *collective* experience and thereby they are the anticipation of softness of a group of enterprises[4]. On the other hand, experiences on softness are based on the lack of credible commitment of the bureaucracy *not* to tolerate persistent loss-making (Kornai, 1992: 143).

Enterprise behaviour will conclude – according to anticipations for the extent of softness of budget constraints – in constrained or unconstrained behaviour, respecting or not respecting budget constraints. The more it anticipates that its survival and growth depends exclusively on the amount of its expenses covered by sales revenues, the more it will respect budget constraints, and the harder the constraint may be (Kornai 1980: 310).

Kornai puts a great emphasis on the institutional conditions in that the soft budget constraints may evolve. He states that the extent of softness or hardness of budget constraint depends on the social relationships that enforce the compliance with behavioural standards (Kornai, 1980: 26; Kornai, Maskin and Roland, 2003: 15). Social relationship inciting different behaviour and defining the softness or hardness of budget constraint is

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[3] First this bilateral relationship is defined, as evolving between state and state owned enterprises. Later Kornai expands both sides: the allocation relationship is not any more between the state and enterprises but also banks and partner enterprises may be supporting organizations, while on the pleader side besides state owned enterprises and collectives, banks, governments, moreover countries join the group.

[4] Kornai states that "When dealing with softness of the budget constraint on firms, it is not permissible to take the case of a specific firm and put the question in the form: is the constraint on it soft or not? The concept expresses the collective experience of a large group of firms, in this case the sum of the state-owned firms in the classical system. It asks what their expectations of the future are in terms of insistence on profitability". (Kornai, 1992: 143).

implicitly understood as a socialist or capitalist institutional environment respectively. He underlies that specific social relationships, institutional characteristics create specific behaviour forms and economic regularities that cannot be eliminated by a state decision (Kornai 1980: 569).

The question emerges whether the differences of expectations and according behaviour also holds within party-states or only prevails between market and socialist systems? Kornai acknowledges that anticipation may diverge within the same system according to the anticipation of different actors or the temporary anticipation of the same actor.

We can find scattered references to the different extent of softness for example, between SOEs and cooperatives (Kornai 1992: 145), countries, period, branches and type of firm. However, he attributes low significance to it compared to the softness of budget constraint in general of state owned enterprises[5]. Therefore, the structural background of these differences and the motivations these incite will not gain importance in his theory.

The phenomena of softness both in classical and reform socialism may be revealed in the following factors: most enterprises dictate prices (mostly output prices) instead of accepting them. *The price is not an exogenous factor* for most of them. Even if prices are determined centrally, the authorities are strongly influenced by enterprises. The *tax system is soft:* the enterprise influences the construction of tax regulations, it may attain an individual exemption, or a moratorium, the tax is not collected systematically. There are *non-repayable state assignments* to investments, or subsidies either to compensate long-term inefficiencies or ad-hoc losses, or to provide ad-hoc incentives. The *credit system is soft:* the system does not adhere to orthodox conservative principles of crediting criteria. The enterprise gets credit even if there is no effective guarantee that it can meet a repayment deadline from its incomes. Loans are not strictly connected to the production and sales capacity of the enterprise. Irregular repayments of due credit instalments are tolerated. Consequently, survival is not strictly dependent on the favourable ratio of returns to expenses. Even if expenses are persistently greater than returns, this is not a question of life or death (Kornai, 1992: 140–142).

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[5] "No great inaccuracy is committed if finer distinctions are ignored in the analysis that follows, and reference is made, for the sake of simplification without subtle qualifications, to the softness of budget constraints and to the weakness of price and cost responsiveness." (Kornai, 1992: 489 fn. 24)

Is bailout unanimous? Are these different dimensions of softness valid to any enterprises or economic units? If we examine these statements more closely, we can see that Kornai defines these characteristics in relationship to "most of the enterprises". What about the prices, subsidies, credits, taxes of those who are excluded from this group? All the above questions and problems raised call for the more thorough examination of the systemic environment described by Kornai, where soft budget constraints prevail.

Kornai has never excluded the fact that soft budget constraints may develop between the capitalist state and the state owned, moreover, private enterprises. However, he stressed that this phenomena is more characteristic to planned economies as a consequence of paternalist ties between the state and the state owned enterprises (Kornai, 1983: 169) and the paternalistic economic role of the state (Kornai 1986*a*: 1). He did not define paternalism "in se" as a complex system only with regard to the soft budget constraint as one phenomenon deriving from it. "Paternalism, and soft budget constraint as one manifestation of it, is a typical social relation between superior and subordinate, higher authorities and management of the firm" (Kornai, 1992: 144). As Kornai states, in paternalist conditions the state cannot refrain itself from supporting loss-making enterprises feeling responsible for the political and social consequences of breakdown. However, soft budget constraint is socially conditioned: "the softness of the budget constraint does not simply arise because the higher organizations of control fail to keep tight financial discipline, or the tax authority, banking sector or price office are overly tolerant. Its appearance is a strong regularity, deeply rooted in the basic traits of classical socialism" (Kornai 1992: 144). We find similar arguments concerning soft budget constraints in market socialism. He firmly stressed that due to the characteristics of the power structure as the ultimate cause, budget constraint by no means can be hardened neither in reform socialism (Kornai, 1992: 495).

Extensive statistical analysis complements the theoretical arguments (Kornai and Matits 1986*b*; 1990) to demonstrate that the focus of allocation is on *bail-outs*. The data analysis revealed that the redistribution of resources strongly correlates with the loss-making enterprises. The conclusion was that the state is taking from winners and redistributing to losers, thereby justifying paternalistic views. According to the authors, the reason of this redistribution lies in the equalization drives of the bureaucracy. The data analysis revealed that alsolow efficiency and investment growth correlates and since efficiency decreases after the investment, even returns are not guaranteed. Based on these data they stress that closedown (which in most cases meant wind up through merging) depends on the bureaucratic

selection and not on market efficiency. They have also revealed that loss-makings and closedowns do not strongly correlate (Kornai, 1986*a*: 9). Some question emerge here that paternalist approach does not answer: why would the state invest in loss-making enterprises even despite the perspective of inefficient investment realization, where no returns are guaranteed? Moreover, what are the selection criteria upon which close-downs and bail-outs are implemented if loss-makings and close-downs do not correlate, while bail-outs and loss-making strongly do?

Paternalism, as the main social form related to soft budget constraint loses its key role in Kornai's book on socialism while the power structure emerges as the main origin of causes. Instead, paternalism is reduced to a bilateral relationship that derives form a preponderant bureaucratic coordination, characteristic to socialist power structure (Kornai 1992: 361). Kornai defines the elements of power – the Party as a political organization, the state, formally as any modern state in the world. However, in this latter, the positions and activity is dominated by the Party and its apparatus which duplicates and supervises the functions of the state penetrating each other. The connection of these elements in Kornai's description is on the level of institutions[6].

Kornai states that the structure of power under classical socialism is totalitarian in nature, since the influence of the bureaucracy extends to every sphere of life and it is not subordinated to any stable legal system (Kornai 1992: 45-47). Stating the nature of bureaucracy Kornai shortly describes the bureaucratic coordination as a hierarchical mechanism that serves as the mode of interaction among those who are parts of the bureaucracy, deciding the fate of redistribution (Kornai, 1992: 493). According to Kornai, the bureaucracy, which consists of the party and the state apparatus and managers of state-owned enterprises, constituting the power elite, is bound together through several factors. These binding factors are: the specific ideology, their resolution to keep power, the prestige and privileges they share as elite and the coercion deriving from party discipline and career protection of those members of the bureaucracy. Interaction is taking place among the party and the state apparatus and managers of state-owned enterprises, constituting the power elite. The power elite is bound together through several factors. These binding factors are: the specific ideology,

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[6] His description on institution level roughly follows the outlines of the elements and connecting principles of the party-state network described by Csanádi on the level of individual decision-maker (Csanádi,1984; 1988; 1989; 1990; 1991 and 1997).

their resolution to keep power, the prestige and privileges they share as elite and the coercion deriving from party discipline and career protection of those members of the bureaucracy.

Kornai draws up a main *line of causality* among the factors that define the social structure and its behavioural and economic consequences in classical socialism (Kornai 1992: 361). This causal line starts with the (1) undivided power of the Marxist-Leninist party and the dominant influence of the official ideology, (2) the state dominating over the property rights and thereby the (3) preponderance of bureaucratic coordination (centralization of decision-making and information, dominance of vertical relations, hierarchical dependence. This will define the motivation and interest of actors as (4) plan bargaining, quantity drive, paternalism and soft budget constraints etc. Motivations and behaviour will cause typical lasting economic phenomena, such as (5) forced growth, chronic shortages etc. According the nature of a causal line, each block, but the last one is influencing *all following* ones.

Springing from its causal nature, while acknowledging mutual influences on several directions, interactivity in this model will not gain emphasis. Since arrows only point to one direction, being its other end the origin of causes, it cannot reflect on the interactive impact each factor within a block has on *all previous ones,* and thereby on the self-reproduction of the whole power structure. How do forced growth, chronic shortages, reforms influence the prevalence of soft budget constraints, bureaucratic coordination and the conditions of self-reproduction. It is unclear how do economic units react to allocation criteria, influencing bureaucratic coordination and the reproduction of the power structure. It is also unanswered what are the institutional means of interaction and mutual influence. It also remains unanswered how do changes due to this interactivity, such as the decentralization, disintegration, collapse and transformation of party-states, are represented in this model? How can we explain the consequences of the differences in the distribution of power on the operation and transformation of party-states from this causal line?

Through the introduction of the IPS model we offer structural-systemic-institutional solution to the above raised issues, where both soft and hard budget constraints will be interactively nested in power-relations. We shall provide explanations to the differences in enterprise (or that of other economic unit) anticipation and behavior within the structure, and the dynamics of power relations in party-state systems. This will allow us to shed light on the structural and dynamic background of the differences in

bargaining position and behavior of economic units, giving rise to selectively hard and soft reproduction constraints within party-states. We shall define the relationship between reproduction constraints and budget constraints. We shall point to the structural and dynamic reasons of the differences in hardening or softening of reproduction constraints in time and in different level aggregation of the party-state structure as well as in different conditions of the structure. Moreover, we shall reveal the systemic role of persistenly hardening reproduction constraints and budget constraints in the dynamics of reproduction of party-states and their differences in disintegration, collapse and transformation.

THE STRUCTURAL BACKGROUND OF BUDGET CONSTRAINTS WITHIN THE IPS MODEL

The IPS model postulates a self-similar[7] character for the main elements and principles of connection and operation of party-states along different dimensions (time, space, different aggregation and condition of the structure). It also identifies the structural reasons behind the differences among party-states (Csanádi 1997, 26). *Figure 1* schematically shows the structural properties of a party-state network besides the usual rules of hierarchies within the party and the state. The distinctiveness of a party-state structure evolves through the direct connection between party and state, politics and state-owned economy.

Direct connections arise via the power instruments of the party[8]. We call these instruments as inter-linking dependency lines[9] (D_2). These inter-linking lines penetrate non-party institutions and directly influence decisions

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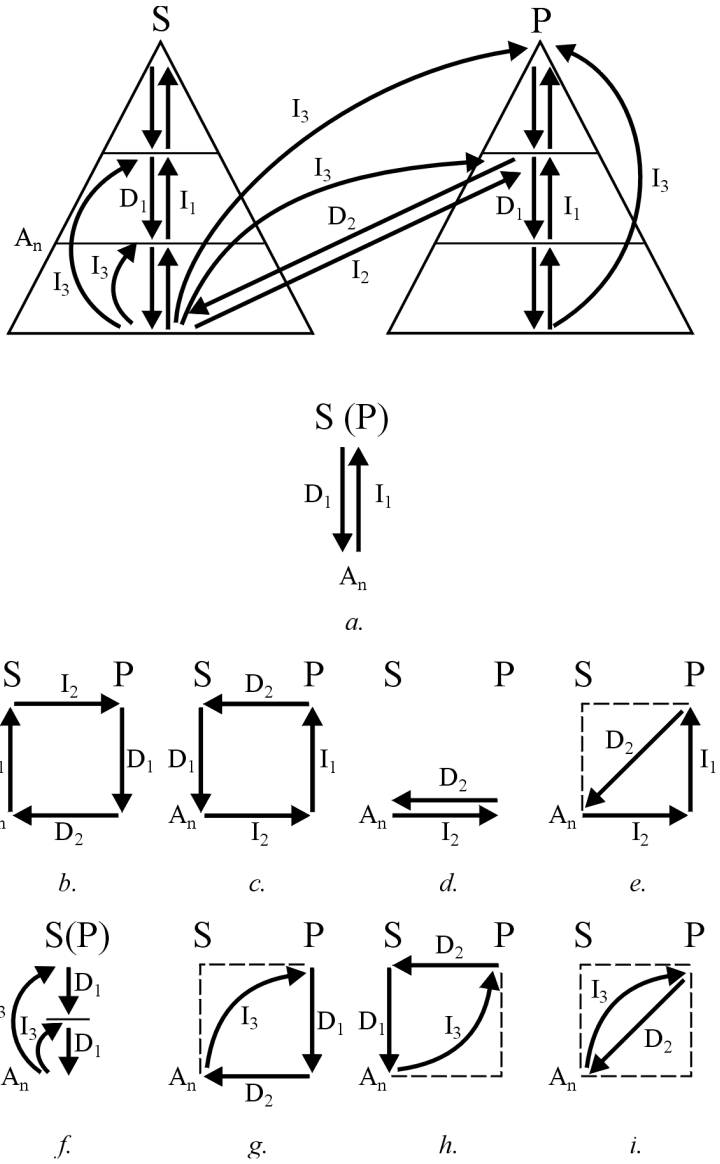
[7] Self-similarity in the nature was described by Mandelbrot (1987). Self-similarity of and within party-states was first defined in Csanádi, M. and A. Lőrincz (1992).

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

[9] The main inter-linking lines infiltrating the institutional framework of non-party institutions are the following: the nomenklatura system overlapping decisions through position structure in non-party organizations, the subject-matter responsibility system overlapping decisions through activity structure, the instructor system, overlapping decisions through the organization structure and the party membership, overlapping individuals through party discipline (Csanádi, 1997, 2002).



Key:

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

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

by overlapping positional-, organizational-, activity structure and individual behavior. These specifics render the political nature of dependencies and interest promotion possibility (I_2) for those connected to these lines.

As a consequence of direct connections through inter-linking lines, all economic decisions will have direct political impact and all political decisions will have direct economic impact. Inter-linking lines also produce structurally built-in inequalities among those connected to these lines and those lacking connection.

Inequalities further increase through the deeper political integration of strategic actors. These actors, by meeting priority criteria of politically tarional concerns, are able to short cut the decision-making process within and accross the party and state hierarchies at any level (I_3). Through shortcuts actors are able to directly promote their interest and resist to disadvantageous decisions by encountering decision-makers whom otherwise, considering the actors' formal position in the hierarchy would never meet[10]. Shortcuts are complemented by D_1 and D_2 lines as loops to feed back achierved results through short cuts. With short cuts another structurally built in inequality will emerge[11]. The result of unequal interest promotion and resistance possibilities is that bargaining capacities and formal positions may differ radically. We shall call this complex interrelation with its built in inequalities concerning dependence and interest promotion as the *structure of power* at the level of individual decision-makers.

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

The above structural characteristics provide the background of the *operating principles* of party-states: since all decision-makers handle

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

[11] See about structural feedback in detail in Csanádi, 1997: 28–37).

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

The structural background and the operating principles lead to a *specific dynamics,* based on the fact that in this politically monopolized structure actors have a dual position: they are simultaneously *holding, and embraced* by dependency lines. Consequently, they have the might and necessity to intervene as monopolistic holders of these lines, while as captured by those, are simultaneously exposed to them and motivated in keeping and multiplying them for interest promotion. Thereby, the structural context merges into *one single entity* those decision-makers that are steadily taken apart as two separate parties – distributors and pleaders (Kornai, Maskin, Roland, 2003: 4).

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

The structural motivators and unequal bargaining capacities induce a revolving mechanism: the actors as captured by dependency lines are directed toward the dependency lines by the fact that interest promotion has no other avenue than the use of the dependency threads either directly (I_1 through D_1 and I_2 through D_2) or indirectly (I_3). The drive for feedback (I_3) is

constant, in order to ensure chances for advantageous bargaining and to meet politically rational selection criteria of strategic resource distribution (Csanádi, 1997). However, in order to meet these criteria, one has to become strategically important, which requires growth; the necessity for growth forces the pleaders to constantly rely upon the dependency threads for resources, and adapt to expectations rallied through those. For decision-makers as holders of dependency threads, in order to recreate the material basis for practicing power and the maintenance of the practice of selective redistribution – in an attempt to satisfy this constant hunt for resources – the continuous intervention and siphoning-away of resources and selective allocation is necessary. This once again drives the actors as captured by dependency threads to make use of these lines that in turn activate actors as holders of the same.

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

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

Elements, principles of connection of these elements, and principles of operation, the double-sided position of actors and the subsequent motivations and behaviour have a *self-similar nature*. This self-similarity of

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

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

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

SELECTIVELY SOFT BUDGET CONSTRAINT AND BEHAVIOR ADAPTING TO THE DISTRIBUTION OF POWER

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

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

The larger the unit's capacity to attract, the softer the unit's budget constraint. The unit will do its utmost to acquire or maintain the properties that attract resources (growth by investment, takeover and accumulation of feedbacks) and will strive for the decentralization of the inter-linking threads and to hold to its jurisdiction. Lacking extracting capacity, it will strive to increase its own size, while that of its sub-units will become indirectly important. The importance will emerge from the point of view of enlarging its economic potential to enhance the subordinated unit's and thereby its own bargaining capacity. This may be achieved by bearing, developing or acquiring sub-units that are potentially capable of undermining the stability (internal supply, non-fulfilment of contingencies, political tensions, and so on) of the unit as a whole or that of the higher level aggregations[12]. This is the reason why these units strive to increase the economic potential of state owned enterprises (SOEs) under their jurisdiction or to expand their jurisdiction over larger SOEs, subordinated to the higher level aggregation at their location[13].

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

[13] This may have been one of the reasons in Hungary why local party organizations strove for the allocation of headquarters of large enterprises or new centrally planned investments under their nomenklatura responsibility (Csanádi, 1997). Similar

The more bargaining capacity it acquires the softer the budget constraint of the unit. On the other hand, the lower the unit's attracting capacity, the harder its budget constraint. The extent of the attraction capacity of the unit may tend to zero. This is the case if self-similar units do not meet selection criteria of allocation[14] and their budget constraints harden.

With harder budget constraint from above, and no possibility for extraction from below, survival efforts will force units to "channel in" and compensate their lack of attracting capacity by joining, or indirectly profiting from those that do have a bargaining capacity[15]. Moreover, whether budget constraints are hardening or softening, if the attraction of resources was the unique opportunity within the unit, actors will not be interested in quitting the net or the organization they are located[16].

(*b*) The opposite extreme is when discretion over extraction and distribution is given while *no resources are allocated from above***.** In this case**,** budget constraints will depend solely on the unit's capacity to extract resources from within the field subordinated to it. Success of extraction depends on the extent of the resisting capacity of its sub-units. The lower the resisting capacity, the softer will be the unit's budget constraint from below. The

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motivations must have driven Chinese provinces and lower level governments in the 1980s to lobbying for the decentralization of SOEs that pertained to higher level administration (Sun, 1997: 10., Naughton, 1995; Walder 1994 and 1995).

[14] For example, the inefficiency of enterprises in Hungary was inducing selective close-downs during the 1970s according to enterprise size. The smaller the more frequent was the close-down. Moreover, bailouts were much more frequent in larger than smaller SOEs (Csanádi, 1997: 115). One can see similar phenomena in China after 1984 along the following dimensions: bargaining capacity and size, and state owned enterprises and township and village enterprises (TVEs) and selective bail-out of regions (Shu, 1998, 393 cited by Zhou and Sun 1996, 11-12, Portyakov 1991; Zhou and Sun, 1998**,** referred by Perotti, Sun and Zou 1998, 160; Wildasin, 1997 cited by Qian-Roland 1998. 1444).

[15] This was experienced in Hungary in the 1970s (Csanádi, 1997) in the case of smaller SOEs that sub-contracted the larger ones in order to obtain scarce raw materials and spare-parts acquired by those as a consequence of their better bargaining position. The same motives may have driven TVEs in the early 1980s to become subcontractors of large SOEs, when 60-80% of TVE output was produced by firms subcontracting with large urban SOEs in suburban areas of Beijing, Tianjin and Shanghai. (Perotti, Sun and Zou, 1998).

[16] For example, despite Hungary having a law since the middle of the 1980s allowing enterprise subsidiaries to detach from the mother enterprise very few such actions took place until the end of the 1980s when detachments begun to mushroom. However, from the end of the 1980s until mid 1990s, the 50 largest enterprises in the processing industry disintegrated into more than 690 units (Voszka, 1997).

higher the resisting capacity, the harder will be the unit's budget constraint from below. In this latter case, the interest of enhancing the growth of economic sub-units within the unit's confines is constrained by the interest of increasing extracting capacity within the net. On the other hand, the interest of subordinated units is to increase bargaining capacity for better resistance to extraction. Therefore, the unit strives for further concentration of the inter-linking threads within its realms and for less fed-back sub-units with less bargaining (resisting) capacity, while subordinated units strive for growth.

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

How can combined budget constraint be defined for an interacting self-similar unit? Taking the self-similar character, the internal variations of power distribution and interactions into consideration a *new concept* of system- and structure-specific budget constraint is introduced within the IPS model.

On the one hand, the combination of attracting and resisting capacity of a self-similar unit will define its *bottom-up balance of resources***.** On the other hand, the combination of the unit's extraction and redistribution capacity will furnish its top-down interactions and define its *top-down balance of resources*. The whole reproduction process will be shaped by the combination of its top-down and bottom-up interactions. Hence, interactions themselves are shaped by the distribution of power bottom up and top-down. The combined (IPS) budget constraints of a unit will define the unit's constraints during reproduction, therefore we can call it *reproduction constraints*. Selectively soft/hard budget constraints will adapt to the structural varieties in the distribution of power both top-down and bottom-up. *Therefore, hardness or softness of reproduction constraints will be structure-specific, in other words, selective.* The combination of different or similar extent of the attracting, resisting, extracting and allocating capacities will provide the *extent* of softness/hardness of reproduction constraint of the unit. The larger the at-

tracting, resisting, extracting capacity of the unit and the smaller its allocating necessities, the softer its reproduction constraint. The smaller is this capacity, and the larger its allocation obligations the harder its reproduction constraint.

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

THE DYNAMICS OF REPRODUCTION CONSTRAINTS WITHIN THE STRUCTURE

As a result of the absence of economic efficiency controls owing to the structural and dynamic traps[17] in the reproduction, *reproduction constraints are unstable (tending to)* in the direction of the inherent behavior and interests motivated by political rationality forming forced paths of redistribution. Therefore, from time to time reproduction meets structural constraints **(**either transitory or long-term**),** the extraction and/or attraction of resources is no longer viable within the framework of the given power structure, either as a consequence of resistance or lack of extractable resources. In other words, *the* characteristics of the dynamics of reproduction *occasionally lead to structurally hard reproduction constraints and thereby to shortage at unit level.*

When mechanisms of reproduction meet hardening structural constraints pressures grow to either *change the status quo or leap out of the net* for further resources. To change the status quo (distribution of power) is structurally challenging, to leap out of the net is economically challenging.

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[17] To remind the reader: structural and dynamic traps emerge from the direct links between party and state and state-owned economy based on political rationality, the politically rational criteria for feedback, the politically monopolized interest promotion and dependencies, politically rational resource extraction and distribution, and the political rationality of behavior in resource extraction, attraction, resistance and selection and distribution.

To understand this latter: the party-state units are not only nested in larger aggregations of the net. The environment outside the net, be it within the country[18] or the international framework surrounds these units or their larger aggregations. In this respect, there is a *strict connection between reproduction constraints within the net and the budget constraints of the unit* in relationship to its external conditions (domestic and international).

When reproduction constraints of a unit are soft, that is, there are no structural obstacles to reproduction, hard or soft budget constraints do not play a role. In case reproduction constraints within the net harden but resources from outside the net are available, budget constraints of the unit remain temporary soft. In this case, reproduction constraints soften and motivations to change status quo are limited and so are adaptation pressures. It is another case when reproduction constraints within the net harden and chances to attract (or siphon away) resources from outside the net decrease. This time, the budget constraints of the unit hardens, and motivations intensify to change the status quo within the net and to adapt to domestic and/or international pressures.

Adaptive capacity of the net during reproduction in case of soft and hard budget constraints is dramatically different. As a consequence of the traps built in the structure, in case of soft budget constraints the internal dynamics of the net flexibly "translates" and form-fits (adapts) environmental impacts according to internal criteria and forced paths of reproduction due to redistribution of power. In case of the coincidence of persistent hardening of budget constraints and hard reproduction constraints, due to the same traps, the environmental impacts and drive for adaptation increase the frequency of hardening reproduction constraints, decrease cohesion and changes status quo. This change may be transitory, definite or may lead to an irreversible disintegration and collapse of the net instead of transforming it.

When the cohesion of the system (or lower level aggregation) weakens these conditions create the motivation to restore the cohesion of the structure in the same or new distribution of power. *To that end, each combination induces a variety of possible actions according to expectations*. However,

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

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

Both hard and soft reproduction constraints may be present temporarily or for sustained time within the above variations. Status quo may change if either bargaining capacity of the unit changes bottom up, or toward its sub-units top-down, and therefore extraction and attraction of resources meet or instead, avoid structural constraints. Soft reproduction constraints will be temporary (turn into hard) also if the maintenance of status quo *exhausted resources* in the unchanged structural conditions. Hard reproduction constraints will be temporary, if power relations are restructured and resistance of sub-units discontinued, or new mediators with required feedbacks are found changing the political capital of the unit.

Soft reproduction constraints may turn to hard from time to time, when meeting structural constraints of resource extraction and attraction within the given distribution of power. This process may develop within the given distribution of power, or in case the earlier bargaining position of the unit within the larger aggregation is shaken, or resisting capacity of its subordinated units increase. Similarly, hard reproduction constraint may turn to soft in case the unit's bargaining position within the larger aggregation improves or resisting capacity of its subordinate units declines. The given constraint prevail for different periods and may turn to its opposite again.

Do structural specifics influence the length of the period when hardening reproduction constraints evolve? Do they influence the time-span under which cohesion may be restored? Does restructuring require (allow) instruments irrespective of structural specifics? We argue that both the frequency of hardening reproduction constraints, the mode and the time-lapse of removing the obstacles to the reproduction mechanism and, thereby, recreating the cohesion are *structure-specific*.

The *frequency* of turning soft reproduction constraints into hard depends on the distribution of power within the unit. If resisting capacity is low, the period is longer, if resisting capacity it is high, the period is shorter. Therefore,

not only the frequency of hardening of reproduction constraint, but also the *time-span necessary to restore cohesion* is structure-specific.

It is not solely the frequency of meeting hard reproduction constraints and the time-lapse of restoring cohesion that depends on the extent of resisting and attracting capacity within the net. Resisting capacity also delineates the possible instruments that enable further resource extraction and distribution and the restoration of the cohesion. If the resisting capacity within the net is weak, restoring cohesion by forcedly redistributing resources is the way. If resisting capacity is higher, than other ways of resource extraction are applied. Therefore, not only reproduction constraints and behavior, but also *instruments of extraction and redistribution will be structure-specific*.

Taking self-similar character into consideration – hard and/or soft reproduction constraints may be present in one time in different aggregations, and at the same level in different spaces. They may be present also in different times on the same or different aggregations. In sum, they may be present sequentially in one unit and simultaneously in different units[19]. Therefore, units on a formally equal level of aggregation or different aggregations, as a consequence of the extent of attracting and extracting capacity, may differ according to their structural constraints. This capacity is determined by the aggregated and individual structural properties.

THE PLACE OF KORNAI'S ARGUMENTS ON SOFT BUDGET CONSTRAINTS IN THE MODEL

Within the *context of the model* the structural background of the soft-budget criteria defined by Kornai is smoothly *adaptable*. The capabilities to influence decisions over allocation and thereby resist unfavorable and attract favorable interventions and resources, the possibilities to be bailed out and to decrease uncertainty, the survival unconstrained by market needs, efficiency and repayable loans, and consequently, the expectations for soft budget constraints are *structurally motivated*. The chances for achieving those criteria and acquiring those capabilities will be higher for those who are able to raise political sensitivity through inter-linking threads, moreover, for those economic actors who have feedbacks. The more feedbacks

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

accumulated, the less they will have to respect budget constraints, consequently the higher will be their expectations of soft budget constraint.

Based on structural characteristics and the principles of operation stemming from these — we can argue that it is *not the soft budget constraint of enterprises in general that is the* characteristic feature of party-state systems, rather, the *selective incidence of the soft budget constraints based on politically rational criteria*. Softness and hardness of budget constraints within the context of the net therefore is an issue of different bargaining capacities and selection criteria based on political and not economic concerns[20]. The pattern of those with selectively *soft/hard budget constraints* – just as the pattern of selective redistribution – will also *reflect the pattern of power relations* (Csanádi, 1997*b*).

It is clear, therefore, that it is the structural and operational principles of the *structure itself* that create those conditions – the structural motivators – that inspire the decision-makers to adequate politically rational behavior. They strive to intervene, to select, to apply for resources, to resist intervention and to adapt to selection criteria and expectations and to accumulate resources. Therefore, these behaviors in the context of the net are not only based upon subjective motivators "inherent desire for growth"[21].

As long as resources are available, structural motivations and politically rational behavior will *preclude* the evolution of those factors that within the confines of the net would be able to control or constrain the regeneration of the above self-supporting (reproducing) mechanism. These conditions simultaneously render the *traps* and the characteristic dynamics of the

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[20] For example, according to statistical survey, in Hungary during 1970 and 1979 those SOEs had higher chance to acquire different resources from central distribution, which bore those politically rational properties that met the center's selective distribution criteria. These criteria were: the SOE's size within their branch, their size within the region they were located, and the manager's elected position at any level of the party hierarchy (Csanádi, 1997: 116–174).
One can indirectly identify the existence of similar selective characteristics in China with respect to large state owned enterprises (SOEs), the central, provincial, and county SOEs, concerning the different levels of the administrative hierarchy and among regions of a given level within the administrative hierarchy. Sources may be found in the writings of Burns 1983,1987, 1994; Wildasin, 1997; Walder, 1995, Yngyi Qian-Gerald Roland, 1998; Sun, 1997; Huang, 1996; Perotti, 1993; Zou-Sun, 1996; Lin, 1989; Granick, 1990; Chen, C. J., 1999; Goodman, 1994**;** Perotti- Sun and Zou, 1998.

[21] Kornai refers to the "natural instincts" of the enterprise manager to strive for growth as explanation of the scramble for growth (See Kornai, 1980: 62, 191–195).

reproduction process in party-states. From time to time the reproduction process consumes available resources within the given power structure that leads to the hardening of the conditions of self-reproduction, to the loosening of cohesion and restructuring of power relations.

THE ROLE OF REPRODUCTION CONSTRAINTS IN SPECIFIC PATTERNS OF POWER DISTRIBUTION

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

Three major patterns of power distribution are given upon the variation of the above elements: (i) Self-exploiting, (ii) Self-disintegrating and (iii) Self-withdrawing. These structural patterns will determine the different ways of self-reproduction with pattern-conforming instruments of resource extraction and distribution, the capacity within the pattern to resource attraction and resistance to intervention and extraction. These factors will determine the different frequency of hardening reproduction constraint within the pattern and the different instruments for self-reproduction (forced resource extraction and redeployment, resource mobilizing- and resource creating reforms respectively). The extent of pressuring capacity of the unit – or the extent of resisting capacity of sub-units – will influence the frequency of hardening reproduction constraints and also the length of the period when hard reproduction constraints and the threat of lacking cohesion prevails. The greater the pressuring capacity within the net, the more seldom the hardening of reproduction constraints and the shorter the period when hard reproduction constraints and the lack of cohesion prevail.

In the *Self-exploiting pattern:* in this pattern, the distribution of power is such that both the extraction and allocation of resources and the net is centralized, and there are weak or no economic feedbacks. These together means in general weak resisting and attracting capacity within the net. In this case, the whole aggregation has unconstrained extracting capacity, in other words, its *reproduction constraints are soft*. Softness evolves and persists, since forced resource redeployment (extraction and reallocation) may be repeated without meaningful resistance.

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

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

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

Therefore, until the reproduction of the given distribution of power is unconstrained (soft), be it at any aggregation level, it will consider unnecessary to change priorities, to adapt, or to find a different instrument for resource extraction. Economic and human resources are exploited to their physical limits – as with Rumania at the end of the 1980s (Verdery and Kligman, 1990), North Korea still by the early 2000s (Eberstadt, 1998, pp. 203-231) or China during the Great Leap Forward and the Cultural Revolution (Barnett, 1967; MacFarquhar, 1990). These systems remain politically stable, despite seemingly irrational expenditures and exploitation of economic and human resources and increasing tensions. The main elements, principles of connection and operation remain unharmed. Therefore, the politically rational way of economic operation with no (limited) resisting capacity within the net, and no constraints on preferential growth of heavy industry *will undermine* the system economically and socially. This process of reproduction will conserve the status quo (the controlling and overlapping capacity) of the power network, in the meanwhile will increase tensions. If self-similar motivations of growth and increasing tensions harden reproduction constraints, further forced restructuring and resource centralization occurs in order to soften constraints, combined with increased pressure. Temporary loosening and withholding of forced reproduction occurs if hardening reproduction constraints and increased tensions coincide with stabilization necessities due to incoming externalities, like leadership change within the unit or similar events and crisis in the larger aggregation. Systemic collapse will occur only when growing tensions and increased pressure meet expanded internal and external political opportunities and intra-elite conflicts arise in consequence of such externalities as the (expected) death of the leader and/or collapse of neighboring self-similar units (Bunce, 1999: 131). Therefore, collapse – which in this case means the disappearance of the main connecting and operating principles of the structure and with that, the structural motivations of reproduction – in these cases will be sudden. Disintegration will comence after collapse, parallel to transformation of state and state property.

The second pattern will be called as *Self-disintegrating*: here the distribution of power is such that inter-linking threads are either centralized or decentralized resource extraction is centralized but there are strong economic feedbacks within the net. This means that the attracting and resisting capacity of fed back units is high within the net in the context of centralized extraction and allocation. In this case however, both strong attracting and resisting capacity hinders the reproduction of the structure through measures of forced resource redeployment. In the terms of the model, the forced resource redeployment efforts *become form-fitted* (applied selectively) to the specifics of power relations. In the given distribution of power, the system will *more frequently* run into hardening reproduction constraints. These circumstances evolve as a consequence of the self-similar properties of motivations and behaviour (e.g. hoarding, drive for growth), the selectively soft reproduction constraints of those fed back as opposed to their relatively strong resisting capacities within the net against resource centralization. Due to these factors, the loosening of cohesion lasts longer. The more frequent the hardening reproduction constraints and the longer the period to restore cohesion, the stronger will be the unit's drive to find *other ways* to reveal resources for self-reproduction. We stress that under these conditions *reforms* will emerge in the given distribution of power as the instruments to reveal and acquire resources and to recreate the structure's cohesion[22].

Reforms, however, do not comprise free flow of production factors, rather the restructuring of the structural context of production factors. Let us call *resource-mobilizing* reforms those resource-revealing actions that remain within the confines of the net and reveal resources by changing the *context of activity* of economic actors as resource subjects within the net by decentralizing the state's decision-making role and increasing that of the economic units. Resources may be also mobilized by *narrowing the circle of selective allocation***.** It will render similar results if the *attracting and resisting capacity of sub-units was decreased***.**

However, as a consequence of strong attracting and resisting capacity of those fed back within the net and unchanged selection criteria, mobilized resources will be allocated invariably on the basis of politically rational

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[22] The detailed description of those conditions when reforms are gaining ground during periods of loss of cohesion due to the coincidence of similar drives (revealing new resources) but different motivations of reformers and conservatives (change and conservation of power respectively) is described in Csanádi, 1997: 174-233.

criteria along feedback interest. Due to structural and dynamic traps, allocation will contribute to the maintenance of fixed paths, to the further strengthening and soft reproduction constraints of selective groups. It will also conserve prior behaviour of those privileged and the hardening reproduction constraints of those out of the privileged circle. Therefore, unchanged allocation priorities do not create new resources, while the hardening reproduction constraints of non-privileged do not allow the increase of resource extraction. Therefore, the structural constraints will increase the frequency of hardening reproduction constraints and thereby the escalation of reforms, parallel to the decline of the capacity to mobilize new resources. Moreover, due to the dynamic traps, this decline takes place without the capacity to abandon forced paths of soft reproduction constrains of those privileged (Csanádi, 1997: 229; Steinfeld, 1998: xiii-xv, 3, 18–21; Roger H. Gordon and David D. Li, 1997). Traps lead to continuous hardening of reproduction constraints on macro level, steady loosening of cohesion and thereby to the further decentralization drives through the escalation of resource mobilizing reforms[23]. Meanwhile, as a consequence of the decentralizing reforms, growing difficulties will arise in maintaining traditional control through inter-linking lines (D_2), reaching out to the increasing kind and number of organizations, activities and positions. Moreover, the activity of using the net and advantages of feedback will decrease, since expectations for resource allocation through the net decline, turning the formerly privileged circle from assets to liabilities. The recurring drives for sustaining self-reproduction will gradually disintegrate the net, without creating alternative resources and alternative rationality of behavior, while decreasing cohesion and enhancing economic recession.

When reproduction constraints become *persistently hard* and cohesion persistently decreases since no further resources may be attracted or extracted in the given structure, decentralization of inter-linking threads accelerate, extracting discretion will be partially decentralized and drives to get rid of burdens increase while efforts to create resources outside the net or attract from above strengthen. The capacity to attract resources from outside the net – in case budget constraints for the unit are soft – will slow down the speed of disintegration, and may conserve the given distribution of power despite the lack of internal resources.

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

In case budget constraints become persistently hard coinciding with persistently hard reproduction constraints from inside, the condition of the structure deteriorates to such extent that cohesion may not be regenerated and system collapse takes place. Disintegration will be *gradual,* first it attains state decisions, inter-linking threads and thereby the party. Collapse will be *smooth* and transformation of state property will *follow* system collapse. Where resource-mobilizing reforms dominate, disintegration, collapse and transformation will be *sequential*.

The third type of pattern will be called *Self-withdrawing.* In this pattern inter-linking threads are either centralized or decentralized there are strong economic feedbacks from several dimensions of the network and resource extraction capacity is partially decentralized to lower administrative levels. Therefore, there is an *increased resisting capacity* to resource extraction within the given power distribution. In these circumstances neither forced resource-redeployment nor resource-mobilizing efforts are sufficient for self-reproduction and, therefore, reproduction constraints within the structure become *frequently hard*. Consequently, resource acquisition drives within the net will force decision-makers to either get rid of allocation burdens by continuously *decentralizing* responsibilities (expenses and targets of allocation), and/or leap out of the net, and/or allowing the increase of the field outside of the net for further resource extraction.

Let us call resource-creating reforms those measures through which decision-makers *partially or completely "leap" out of the net or let the field outside the net grow* to acquire new resources, or attract resources from outside the net. This process increases the alternative field to the net (alternative behavior, activity, organization, property resources and rationality). By that token, these reforms induce the *relative shrinkage of the net*[24].

However, resource-creating reforms will make the *net shrink in absolute terms too***.** This process may occur either *directly,* by deliberately withdrawing inter-linking- and hierarchical lines or winding up state functions and respective organizations.

Absolute shrinkage may also occur *indirectly,* when the targets of inter-linking lines and those attached to the hierarchical lines leap out, or disappear though bankruptcy and close-down or privatization of SOEs. These actions have several consequences: they decrease the number of sub-

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[24] Naughton calls the relative growth of non-state sector as "growing out of the plan" in Naughton, 1996; McMillan and Naughton, 1992: 130–143.

units attached to the net and in exchange, leave hierarchical and interlinking threads in limbo, increase the amount of extracted and redistributable resources available to the remaining sub-units within the net, that is, soften their reproduction constraints. They may also provide the unit with resourceful entities outside the net giving the chance for conserving the status quo within the net, while increasing pressures for adaptation.

The other indirect way of the absolute shrinkage is when remaining resources (capital, manpower, expertise) within the net are transferred outside of the net by the *emptying and stripping off* the rigid structures. The reason of this process is the attractiveness of alternative options of resource acquisition outside the net. Options will motivate decision-makers to partially or definitely exit – either individually (Gordon and Li, 1997: 1-2 and 23.), or as an organization (Voszka 1997, Qian 1996: 430, Smyth 1998: 798). With exit actors *vacate the rigid structures* and leave burdens within the net (Qian 1996: 431).

Because of available alternative resources, the *intensity* of using the net also decreases. The higher the expectations for harder reproduction constraints within the net and the more frequent they are, and the more intensive the competition pressure (hard budget constraints) from outside the net, the higher the drive to decentralize or to leap out of the net. Expectations and drives and pressures 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 – inter-linking threads are withdrawn, break, left in limbo or empty, state property is sold out or closed down, state bureaucracy shrinks – gradually deteriorate *and system transformation takes place,* parallel to disintegration first economic transformation is taking place. This process is self-reinforcing, gradual, and partial-spreading, according to the spreading of hard reproduction constraints.

CONCLUSIONS

The traditionally used concept of soft budget constraints, when embedded in power relations, will gain a more complex and extended meaning as *reproduction constraints.* This extended meaning allows us to define several new characteristics of budget constraints when nested in power relations. In this context, reproduction constraint is a structural-systemic rather than an economic-institutional term. Adapting to the distribution of power, reproduction constraints are structure-specific within party-states, according to the differences in the distribution of power among actors. Owing to the

structural specifics, pleader and distributor is one single entity in dual position, therefore, due to the same structural specifics, reproduction constraints evolve as a balance of resource attracting, extracting, allocating capacities of the individual actor, and his resisting capacities to intervention. These properties concern any economic actor in the power structure. Therefore, softness of reproduction constraint is selective, according to different bargaining capacities of actors within the structure. Accordingly selectively hard reproduction constraints within the structure also prevail.

The structural and operational background of selectively soft reproduction constraints, provide the systemic motivation for politically rational economic behavior: the drive for growth and hoarding behavior of economic units and politically rational fixed paths of reproduction. Due to its structure-specific nature, the dynamics of selective softness will adapt to the changes of the structure, in time, in space, in different aggregations and its different conditions and will incite structure-specific behavior. The main patterns of power distribution will define the specific dynamics and instruments of self-reproduction of the structure as a whole. The differences in the distribution of power will be responsible for the different frequency of hardening of the reproduction constraints. Different frequency in turn, will incite the frequency of the implementation of structure-specific means of self-reproduction, leading to structure-specific paths of disintegration, collapse and transformation.

Reproduction constraints does not rubber off the function of budget constraints, but transfers this latter's role to the relationship of the unit or its larger aggregation and its external (domestic or international) conditions. Reproduction constraints and budget constraints external to the net strongly interact. The impact of the softness or hardness of budget constraints on the reproduction of the party-state network varies according to the simultaneous hardness of softness of self-reproduction of the net. If reproduction constraints are soft (there are internal resources to attract, extract and allocate), budget constraints do not play a role. However, when reproduction constraints become hard, soft budget constraint provides resources to soften hardening reproduction constraints and conserve status quo within the net. When reproduction constraints become persistently hard and meet with persistently hard budget constraints, this will decrease cohesion and intensify adaptation pressures. However, adaptation efforts will be self-destructive as a consequence of politically rational dynamics (internal traps) of the structure. Depending on the pattern of power distribution Self-exploiting, Self-disintegrating and Self-withdrawing patterns and their respective dynamics, they will accelerate pattern-conform reactions

(instruments) and escalate pattern-conforming consequences: intensify tensions, accelerate disintegration and/or the withdrawal of the net respectively. Persistently hardening budget constraints therefore, lead to pattern-conforming collapses: to abrupt, gradual or partial-spreading collapse in the three basic patterns respectively. Accordingly they lead to pattern conform transformations defining the sequence of economic and political transformation, economic conditions and the level of turmoil and cumulated uncertainty. Consequently, hard budget constraints combined with hard reproduction constraints, increase adaptation pressures, but owing to the internal traps of the party-state system, rather than increasing efficiency within the net it contributes to the self-destruction of party-states.

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