
Abstract

The concept of “Chinese Miracle” comprises two dimensions. The first one is obvious and purely economic in nature: 9% annual GDP growth rate over quarter of a century. The second one is less obvious, but no less important and is institutional: the ruling Leninist one-party state not only survived apparently successful transition to the market economy, but even consolidated its institutional grip in the wake of this transition. This fact looks indeed extraordinary and even paradoxical in the light of the catastrophic fate of all other communist party-states in the former USSR and its East-Central European satellites, which – in different times and to different degrees - also initiated market reforms. The explanation of this paradox lies in the specific constellation of social, demographic and historic factors in China. The practical embodiment of this constellation was unparalleled price reform, carried out in the 1980-90s. This reform transformed decentralized directive pricing, which existed between the 1950s and the 1980s, into the system of agreed pricing. However, party-state institutions remained the key player in defining the conditions of pricing agreements. Their positions of biggest financial monopolist, lender of last resort as well as that of the sole macroeconomic controller also remained basically intact. The potential of the Chinese party-state to exhibit institutional resilience in the process of “market transition” turned out to be unexpectedly significant. However, the basic limitation of such resilience is that the principle of soft-budget constraint still dominates behavior of key economic and administrative players, constantly invoking the specter of macroeconmic chaos with unpredictable institutional consequences.
“The biggest myth about China...was that the country ceased to be socialist.”

Milton Friedman to the governor of Sichuan province, calling to accelerate market reforms: “You should not cut off the mouse’s tail in inches. To reduce the pain, you should cut it off in one fell swoop.”

Governor of Sichuan province to Milton Friedman: “My dear Professor! Our mouse has so many tails that we simply do not know with which one to start.”


1. Two Dimensions of the “China Miracle”

The term “China Miracle” was coined by Chinese economists Lin Yifu, Cai Fang and Li Zhou in their famous book “The China Miracle: Development Strategy and Economic Reform”, first published in 1996 (Lin - Cai - Li, 1996). In the boundless ocean of subsequent academic and popular literature on the Chinese post-Mao transition this term appears to have two meanings. The first one - widely known and acknowledged – implies 9% annual GDP growth that China could generate and support for more than a quarter of a century. This growth coupled with market reforms greatly helped once economically backward and socio-politically exhausted country to facilitate industrialization, infrastructural development, urbanization and rise in the standards of living.

The second meaning of the “China miracle” is noticeably less articulated in historiography of the Chinese post-Mao reforms. However, it is present – implicitly or explicitly – both in the heads and in the texts of many Western China sinologists and China watchers. This second dimension of the “China miracle” deals with the fact that such impressive rate of GDP growth and feasible expansion of the market “space” in the national economy have been taking place all these years in the country which ideologically sticks to Marxism-Leninism and – what is even more important – saves institutions of the Leninist one-party state basically intact. Moreover, there are reasonable grounds to conclude that economic growth and market reforms in China today consolidate institutional positions of the CCP.

This second dimension seems indeed a systemic institutional miracle. East-European and Soviet stories of attempts to start up an engine of market economy under Leninist socialism proved to be – without any exception – not only abortive but undermining the party-state institutions, ultimately leading them to systemic collapse and political revolution. More than that, it turned out that the experience of “market socialism” in Eastern Europe had not eased social and economic pains of post-communist transitions for these countries. In other words, there is no clear positive
correlation between the existence of such experience in the given country and the country’s relative sustainability and success in post-communist socio-economic transformation. (Lorentzen – Widmaier - Laki, 1999)

Regarding to the case of China, there may be two logical explanations for what seems an “institutional miracle”. The first one may recognize that China – due to several intrinsic features (be they historic, cultural, institutional or all at the same time) of the “Chinese communism” – succeeded in peaceful and gradual dismantling and reforming the bounding properties of the Leninist institutional model. These properties turned out to be not yielding to change in all other state socialist systems, making “Leninist socialism” to look fundamentally incompatible with the principles and practices of the market economy. If this is the case, then the Chinese experience of market transition has a world-historical significance and is indeed a miracle without the quotes.

The second explanation may be that the Chinese reforms, though dynamic and successful, have not touched, so far, these systemic bounding properties and therefore the main challenges are still ahead. Important to mention, however, that already by now the depth and width of the Chinese economic and social transition from the common knowledge “Marxist-Leninist socialism” have far surpassed those of used to be “paragons” of “market socialism” in Eastern Europe in 1960-80s, namely Hungary and former Yugoslavia.

Both logically possible explanations need thorough verifications, which are very difficult to undertake because of the enormous bulk of empirical material and – no less – methodological discrepancies. World sinology is unable so far to fold the puzzle of the China “institutional miracle”. Proponents of each approach can produce such arguments in their respective favor, which can convincingly disprove the statements of the opponents.

This is, by the way, one of the hidden but fundamental causes, why the second dimension of the “China miracle” remains somewhat less articulated in the literature on today’s China. Dealing openly with this issue inevitably brings a researcher or publicist back to rather inglorious attempts of the former Soviet studies or “Sovietology” to define and explain both impressive socio-economic achievements and final institutional collapse of the Soviet-type party-state led modernization. Soviet studies’ methodological and practical dilemmas seem long forgotten or even non-existent for today’s generation of Western China watchers. It is indeed remarkable that there are almost literally libraries of literature written on China’s reforms and transition which either remain simply silent about institutions of the ruling party-state or, at best, interpret them as ethically annoying, but inevitable and presumably resilient institutional technicality. (Kelly – Rajan – Goh, 2006; Guthrie, 2009; Laiberte – Lantaigne, 2008, etc.)

However, the main questions which are fundamental for folding the puzzles of Chinese transition in general and its apparent “institutional miracle”, must do primarily with defining of
these “bounding property lines” of the Leninist party-state and its economic model as well as with its adaptive capacities, or, in other words, with the limits on its ability to reform. And there is no other bulk of research except for former Soviet studies, which, with all its drawbacks or even failures, can be instructive and helpful in the search of explanations.

2. Soviet Studies Are Dead. Long Live China Studies!

Even a partial acquaintance with the ocean of literature on reforms in China creates a feeling of déjà vu for those readers who are familiar with the historiography of Sovietology. The fact that former Soviet studies tuned out unable to foresee and predict the implosion and collapse of the USSR and the “Eastern Block” became, according to Robert Conquest, “whole intellectual disaster in Western Academe” and substantially reduced the credibility of practical and theoretical experience of Sovietology. In my view, however, this is not a good enough reason to downplay or even to neglect the legacy of the former Soviet studies, especially in the context of systemic dynamics of Chinese party-state in the recent three decades. The mentioned déjà vu effect testifies not only to typological similarity of the research objects of the former Soviet studies and current China studies but also to the systemically similar dynamic trends within these objects.

The former Soviet studies generally consisted of two basic methodological approaches. The first one – group “A” theories - developed along the lines of “state-centered” explanations with the party-state being the key factor of the system’s establishment, existence and evolution. (Amman, 1986; Brzezinski, 1962; Brzezinski-Huntington, 1964).

The second approach – group “B” theories – elaborated the “society-centered” explanations, proceeding from the assumption that it is the dynamics of socio-economic development and modernization in the “socialist systems” which is of primary importance for understanding the present and the future of the “Soviet socialism”. (Kautsky, 1973; Rostow, 1960). Eventually it turned out that both were wrong, however, because of different reasons and with different practical and theoretical implications.

The proponents of the “state-centered” approaches – those, who adhered to the theories of “totalitarianism” and “neo-traditionalism” – failed to explain robust dynamics and undeniable socio-economic and cultural impacts of the Soviet-style non-market “conservative modernizations” under Stalin and after Stalin. The partisans of “society-centered” approaches (“social science”, “modernization”, “convergence”, “stages of economic growth” etc.) in their turn were utterly incapable of putting together feasible impacts of socio-economic modernization and the fact that until the very end of the Soviet socialism the political edifice of the communist party-state remained structurally untouched, staying the key systemic integrator. (Fleron-Hoffmann,
Mikhail Gorbachev’s good faith attempts to make the political system more pluralistic and transparent, it seems, only deepened the crisis and speeded up implosion, initially unanticipated by many observers.

So, both were wrong, but somewhat not equally. German political scientist Klaus Mueller had to admit in the 1990s: “In contrast to functional theories which claim a positive correlation between industrialization and democratization, the incontestable merit of (neo)-totalitarianism theory consists of emphasizing the independent weight and the specific irrationality of domination.” (Mueller, 1997, p. 29) In other words, the “state-centered” explanations ultimately turned out to be at least “less wrong”.

Anyway, both “schools” were in trouble trying to explain empirical compatibility of high socio-economic and cultural dynamics and profound institutional continuity in the Soviet systems. Subsequent calls to study Soviet systems, using the “whole battery” of theories, sounded generally convincing, but abstract. (Fleron-Hoffmann, 1993, p. 361) Sovietology collapsed due to seeming methodological failure and the physical disappearance of its research object. US political scientist Alexander Motyl, most likely, was right when pointing to largely applied character of the former Soviet studies. (Motyl, 1993, p.252)

Since the start of the 1990s, China studies in the West resolutely broke their “umbilical cord” with the Soviet studies, which existed from the early 1950s, and started their, so to say, autonomous navigation. Moreover, “Russia’s fall” and “China’s rise” from the 1990s and after gave serious additional incentive not to look back to disgraced, “conservative” and “outdated” Sovietology. Realized “cultural uniqueness” of China as well as some institutional arrangements of China studies in the West seem to conduce to such divorce.

However, it is seemingly a paradox that in the bulk of Western China studies literature of the recent two and half decades one can easily detect almost all main methodological approaches and paradigms of the former Soviet studies – from “totalitarianism” (McCormick, 1990, 1994, p. 94-115) and “neo-traditionalism” (Zheng Yongming, 2010) to “modernization” (White, 1993, 1994, p. 73-93), “social science theories” (Gilley, 2004) and even the elements of “convergence” theory. Indeed, several seasoned China watchers seriously anticipate the People’s Republic systemically drifting towards capitalist and culturally close Taiwan, Singapore or even Japan. (Walder, 2006, p. 216)

To be sure, there are obvious differences, rooted primarily in the fact that today’s China watchers deal with very much different concrete empirical material, then their counterparts in the former Soviet studies. Besides, the prophecies of Chinese party-state eventual collapse are somewhat more vocal (although, far from dominant), than it was regarding the USSR in the West of the 1960-80s. (Chang, 2001, p. 234). Clear, today’s China watchers have the Soviet – Eastern
Bloc example at their disposal, while four or five decades ago, it was indeed mentally difficult to imagine the Soviet Union imploding and disintegrating. However, with given differences, it is even more thrilling to discover so many similarities in both argumentation and methodologies.

Upon close examination, one can also reveal another, even more fundamental commonality between the former Soviet studies and current China studies. Just the way it happened to the Soviet Studies’ experts, today’s China watchers – be they state- or society-oriented – seem to be in trouble explaining the compatibility of dynamic socio-economic modernization, market reform and fundamental institutional continuity during the recent three decades in the People’s Republic. Neither concepts of “authoritarian resilience” or “Beijing consensus” nor “doomsday” prophesies, refuting them, can answer the basic question of “how it [party-state institutions and socio-economic entities under their rule] can change so much without changing and remain sustainable” convincingly enough. (Nathan, 2003, p. 66; Pei, 2012, p. 99)

Regarding post-Soviet Russian China studies, intellectual and institutional effects of the Soviet collapse were so shocking, that Russian sinologists largely stayed out of this discussion. Bearing in mind that China studies in the Soviet Union were under very strong ideological limitations it should not be a surprise that “methodological failure” remains an important characteristic of today’s Russian sinology.

Anyway, the discussion, epitomized above, raises a fundamental methodological problem of finding and describing the limits on the party-state adaptive capacities. In other words, detecting those “bounding property lines” of the system, which make it the way it is and can reintegrate it in case of partial disintegration. It is also plausible to assume, that the abandonment (erasing) of these “bounding property lines” as well as their probable modification - because of different reasons – may mean nothing less, but transition to another systemic structure and reality.

Quite paradoxically, for a long time this issue remained on the periphery of the Soviet studies. Earlier protagonists of “totalitarian” theory could not answer it convincingly enough (Friedrich-Brzezinski, 1956), while for the “society-centered” researchers of the later decades it generally seemed not to be a methodological puzzle, worth penetrating. To be sure, the concept of “post-totalitarian” stage of “totalitarian” system, elaborated by Juan Linz, may be helpful in this respect. (Linz, 2000, s. 435) The works of Janos Kornai – especially those of early 1990s – also shed a considerable light on the issue. (Kornai, 1995) However, with regard to the Chinese case, his assumption that it is the ruling network of ideologically legitimized party-state, which constitutes the main limit on change, obviously needs further empirical proofs and clarifications.

In mid-1990s, I have suggested that “bounding property lines” of the “socialist systems” may lay in the field of symbiotic institutional networking between the party-state and industrial state sector in the economy, created in the wake of party-state led non-market industrial import-
substitution ("socialist industrialization"). (Karpov, 1996, p. 18-21) Clearly, for the case of China this my suggestion of that time also needs additional elaboration.

Between mid-1990s and the end of the 2000s, the fact of market transition in China, which should have been able to confuse China watchers completely, seemed to come to their rescue. Perhaps, under certain influence of the Chinese economists’ theoretical calculations regarding the implementation of “double-track” pricing and “political economy of gradual reforms”, based on it, some Western economists and political scientists have put forward the concepts of “market growing out of the plan” and “systemic self-withdrawal”. (Naughton, 1994, p. 234-273; Csanadi, 1998, 2006, p. 69-72) Briefly, these concepts have assumed that incremental expansion of the “market space” and respective shrinkage of the “plan space” in the Chinese economy would allow the party-state system to evolve gradually into a “political entity”, regulating market economy, without transformational recession and socio-political collapse. To a certain extent, these approaches indeed seemed to explain the combination of systemic changes and continuities in the reforming China. However, already at the end of 1990s some experts began pointing at the limits of “double-track” transition (Heilmann, 2000, s. 374) while the concept of “system’s self-withdrawal”, on closer examination, lacked enough empirical proofs. (Karpov, 2014, p. 159-185)

Once, in 2003, Lowell Dittmer and William Hurst in their well-founded article claimed that American analysis of China development is in limbo. (Dittmer – Hurst, 2002-2003, p. 21-42) Ten years later, in 2013, meeting Lowell Dittmer at the conference in Taiwan, I asked him, if this conclusion is still valid. His answer was “In a way, now it’s even worse…”

To my mind, the fundamentals of this “limbo” in contemporary China studies (not only American) are in principle very close to those of the “limbo” in the former Soviet studies. Both turned out to be incapable of giving theoretical and practical explanation of the combination of dynamic socio-economic changes and “the independent weight and the specific irrationality of domination” in the process of evolution of the Leninist party-states in Europe and Asia.

Despite profound uncertainties, mentioned above, I tend to think that the state-centered approach with special regard to A. Motyl’s definition of “totalitarianism” and J. Linz’s concept of “post-totalitarianism” may be very much helpful in dealing with explanations of systemic changes and continuities in today’s China. A. Motyl wrote that “totalitarianism” is not a frozen model, but a typological construction within the framework of comparative political science approach. According to him, “totalitarianism” is the sum of specific features of certain state systems, which characterize the structure, the forms and the degree of their penetration into society. (Motyl, 1993, p. 255)

J. Linz believes that in “post-totalitarianism” – a concluding stage of “totalitarianism” - the crucial for both ruling party-state and opposition is the fact that the point of departure resides in
the previous stage of revolutionary transformation and consolidation when the party-state annihilated all forms of socio-economic and political pluralism by means of force in the name of proclaimed “bright future”. In other words, the party-state has shaped the given systemic setting well before and thus there is no direct and easy-going way from “post-totalitarianism” to authoritarian (or democratic) political and socio-economic arrangement. He presumes that such transformation inevitably means a sort of rupture with “totalitarian” structures and practices of power monopoly. (Linz, 1975, p. 156)


In my view, the key explanation of the Chinese “institutional miracle” as well as of its limits is in proper analysis of the Chinese “market-oriented” price reform. This reform in China was as a priority step from “above” in 1979-80 that forestalled many other measures of market transformation, such as property, bank, tax or administrative reforms. Leading students of state socialism have more than once stressed the importance of market-oriented price reform for shaping “market socialist” models in Marxist-Leninist regimes. (Kornai, 1995). Chinese economists believed “the reform in price-setting to be the key and most complicated issue among other market-oriented transformations. Most of experts came to a consensus that market pricing must substitute plan pricing. However, the price-setting model is not only the informational guide to distribute resources, but also a certain model of the interests’ distribution. While implementing price reform, the main difficulty was how to minimize the damage to the existing balance of interests [within the system]. That is why the theories of market transition in China we tend to concentrate around the debate on price reform”. (Sheng, 1996, p. 72)

Chinese economist Chen Xu was the first to coin the term “double-track price reform” in June 1985, meaning that in the new pricing mechanism “plan” and “market” prices exit in parallel. (Chen, 1985, p. 36)

Logic and principles of “double-track” pricing was well familiar to the Chinese managers, economists and politicians. The elements of “double-track” pricing in agriculture existed in the early years of the People’s Republic and in the first half of the 1960s, when Chinese leadership had to deal with the disastrous consequences of the “Great Leap Forward”. Throughout the 1980s, when “double-track” price reform was being introduced in Chinese industry, the managers of SOE were called on to “follow the way of grain and oil”, which meant copying the peasants’ practices of selling the produce above the plan on a “free market”. (Zhang, 2002, p. 87-88)
Implementation of “double-track” price reform in China in the 1980s essentially was the quantitative expansion of mechanisms known from the past, with which communist leadership effectively got over the shortages on the domestic market.

Decentralized decision-making and resource allocation made radical price “liberalization” technically impossible. Almost every political or economic “unit” of the “net” both vertically and horizontally was able to lobby for some sort of “special status” and “more feedback”.

Chinese experts usually allude to “sectional” and “proportional” variants of the “double-track” price model. (Yang – Li, 1993, p. 28-29, 108-109)

The “sectional variant”, sometimes described as “double-track” in broad sense”, meant the division of national economy into two unequal spaces, in one of which there is “planned” pricing and in another one is “market” pricing. “Plan space” includes natural monopolies, infrastructure, defense industry, transport and communications. The rest belongs to “market space”. Theoretically, “ideal” ratio is 20-30% “plan” to 70-80% “market”.

“Proportional” variant presupposes “implementation of market mechanisms at each enterprise. At the beginning, market [pricing] mechanisms are to be working [while selling and buying] only produce which is above the plan. And then [they will] gradually penetrate the part of the produce which is within the plan, thus expanding the share of market prices and narrowing the share of planned prices”. (Yang – Li, 1993, p. 29)

However, in practical terms “double-track” price model was a queer and multi-dimensional combination of these two variants.

To understand how the “double-track” pricing functioned in practice and to estimate adequately its role in Chinese transition to market economy, one must answer three interrelated questions.

First, what is criteria for defining the border between the “planned” and “market” spaces?
Second, what is the ratio of the volume between the two spaces?
Third, who has the right to define the border between the two spaces?

Regarding the first question, empirical facts testify that this border was always very mobile, moving periodically both into directions of “plan” and “non-plan”, depending on concrete political, administrative, economic and social conditions. It was usually being a kind of a “grey zone”. I suggest using the term “plan-market frontier” to describe this border, meaning its fuzziness and conditionality.

Still, there is a clear regularity in one aspect. Both producers and sellers were eager to get raw materials and equipment on “planned” prices and sell their produce on “market” prices.

Fundamentally, it was the same logic, which inspired robust flexibility of the producers and sellers in the “market socialist” systems in Eastern Europe. The purpose and actual result of this
flexibility were the practices of privatizing profits and nationalizing the costs, starting to spread in China to no lesser (perhaps, even bigger degree) than in East European “market socialism”.

The best answer to the second question is the following citation from the Chinese experts of the mid-90s: “So far as currently market prices are considerably higher than planned prices, the produces want to sell their produce on market prices but to buy raw staff on planned prices. Volume proportions of used planned and market prices for the most part is subject to bargain between enterprises and the government. Thus, it is extremely difficult to say, what these proportions are (italics mine)” (Yang – Li, 1993, p. 111)

The answer to the third question is that party-state institutions had the final say in defining the design of the “plan-market frontier”. If it was not their vigilant eye, “plan” and “market” spaces would simply mix up in chaos and the question about their proportionate ratio would lose any sense. Looking a bit ahead in my story, this is where lies the key for understanding the institutional dimension of the “China miracle”.

However, the role of local authorities in defining the parameters of this “frontier” was gradually but steadily growing.

There also was a profound confusion in central and local organs’ responsibility over price decision-making. Different “centers of price information”, “centers for training experts in price setting”, “price departments”, mushroomed under the auspices of local administrations. (Li, 1998, p. 161-170)

Covert but harsh bargaining developed all along horizontal and vertical lines of party-state bureaucracy and enterprises’ management. First, lower levels of party-state hierarchy lobbied for getting more powers in price setting from the center. Second, corresponding economic organs fought for more powers on the horizontal levels. Third, enterprises of both central and local subordination lobbied party-state organs for more price-setting rights as well as for “optimal” (in the enterprises’ own understanding) ratio of “plan” and “market” spaces.

In early 1989, Chinese economist Diao Xinshen made the following comment: “The biggest problem of the “double-track economy” is that one cannot clearly separate “plan” components from “market” components. Traditional plan invades the “market” components, and such invasion has no clear rules or principles. It is probably even more important, that within the “market” components [of the “double-track” model] there cannot be established systemic support for the market economy and formation of institutions [fully] corresponding to it”. On the other hand, “traditional [administrative] methods of management also lose their previous efficiency. Thus, much unregulated meddling into market gains utmost importance. In the end both “plan” and “market” become inadequate”. (Diao, 1989, p. 24)
As a matter of fact, the Chinese “double-track” pricing model was such a symbiosis of “plan” and “market”, that badly yielded to central management and simply couldn’t yield to any targeted dismantle, either in the name of the “plan”, or in the name of the “market”.

Official division into periods of economic reform in China declares, however, that by 1992 “double-track” model in price setting seized to exist while “tracks” merged. How did they merge? Although the most part of the subsequent Chinese literature on the subject proceeds from the assumption that “market track” eventually prevailed, concrete mechanisms and dimensions of this “merger” remain unclear. As late as in 2001, Chinese expert on price reform Zhang Guangyuan remarked that, “even now, when most of the prices are already deregulated, we still face the obstacles of government’s monopoly [in price-setting] and chaos on the market”. (Zhang, 2001, p. 273) Such a statement apparently means that the design of “plan-market frontier” throughout the 1990s was still in the hands of the party-state organs.

So, how did the price “tracks” merge in early 1990s, if they merged at all?

The point about the forthcoming merger of the price “tracks” appeared in the agenda of the CCP Central Committee Plenary Session in November 1989. However, the documents of this Session did not give unequivocal answer to the question, based on which “track” -“plan” or “market” – should the merger take place. This was obviously a political compromise. By the end of 1989, “staunch planners” were on the rise and Beijing’s efforts to “merge the tracks” turned into an attempt to recentralize price setting in a number of heavy industry branches. The actual consequences of this attempt were indeed far-reaching. State Council directives about restoration of united planned prices for rubber, cement, rolled metal and some sorts of mineral caused something opposite – further decentralization and fragmentation of the price setting procedures in different economic sectors and country’s regions. (Yang – Li, 1993, p. 217)

“Double-track” price model as internally coherent system with a clear ratio of “plan” and “market” prices for each commodity, enterprise, branch or province, perhaps, never existed in the People’s Republic of China. The volumes of “plan” and “non-plan” sections differed greatly from one unit to another, defined by more and more decentralized price-setting powers of party-state organs and productive units. The blurred and opaque “symbiosis of plan and market” began to take shape. By the second half of the 1980s, wide groups of interest, inherently connected with this “symbiosis”, appeared at different levels of the party-state and production units.

Overall, Beijing’s mission to find optimal solution for administering “double-track” pricing form the center proved to be extremely complicated and – eventually – impossible. Acute socio-political and macro-economic crisis at the turn of 1988-1989 was the climax of this fruitless quest. Beijing’s “counter reform” line to recentralize pricing ran into covert resistance and overt sabotage
of different groups of interest, vitally connected with the already decentralized powers of price setting. Institutionally these lobbies grouped around local party-state authorities.

Fragmentation and regionalization of price setting practices did not lead to the fundamental deregulation of prices. What happened in reality looks like a big multilateral, multilevel and multichannel “transaction” between central government, local authorities and enterprises regarding “purchase and sale” of “planned rights” and “planned duties” in price setting. Local authorities were “buying out” price setting rights from the bodies of the central government, while enterprises lobbied to “buy out” such rights from the corresponding superior instances. (Sheng, 2003, p. 164-258) Locally based private businesses, which may seem to be free in price setting but actually depending greatly on the favors from the regional authorities, had to play according to the price rules, introduced by the latter.

At the beginning of the most active stage of the “transaction” in the early 1990s central government seems to be on the defensive. However, Beijing efficiently concentrated efforts on retaining key positions in such spheres as price setting of capital and natural monopolies, as well as on improving its tax revenue share. Tax and banking reforms implemented in the People’s Republic throughout the 1990s under the auspices of Zhu Rongji were an attempt to guarantee Beijing’s upper hand in these sensitive fields.

*Such state of affairs when central government retains the rights to set the prices of natural monopolies, capital and national currency, while local authorities retain the rights to design “plan-market frontier”, using tremendous variety of bargained “tracks”, I propose to call “multiple-track price setting model”.*

From the mid-1990s on there appeared more and more signs that “market-oriented transformations” in all important socio-economic sectors – SOE joint-stocking, interest and currency rates, taxation, real estate etc. – proceeded according to the logic of “multiple-tracking”. (Chen, 2006, p. 127-269; Guo, 2008, p. 125-247; Xin, 2007, p. 25-54, 130-241) It seems to be also true even for some parts of political and administrative fields. *By the end of the 1990s “multiple-track” transactions, originally rooted in price-setting practices, became a sort of ”genetic code” of the Chinese “transition to market”.*

*Each “track” is, in fact, a sum of conditions on which different units of the system participate in the Chinese domestic “market”. This sum of conditions for the concrete “track” takes shape through non-transparent bargaining between this unit and corresponding level of party-state authorities or between mutually depending units under control and patronage of the corresponding party-state organs. Thus the “tracks” are bargained between party-state organs of different levels, between enterprises (social units) and party-state organs and between enterprises (social units) themselves but under the party-state’s auspices.*
In economic sphere, such bargain has its monetary terms, tired to the difference between “plan” and “non-plan” prices. In political and administrative fields, the results of such bargain (or the “agreed track” of a certain social unit) must stay within the limits of “politically rational behavior”, i.e. not questioning Communist party’s political and ideological monopoly.

Since the main source of the rent in China is investment and low labor costs, which also drive GDP growth, the final sum of redemption has to take into account the potential ability of the “rights’” purchaser to generate such growth. If the sum is so big that purchaser goes bankrupt being unable to guarantee GDP growth, the upper “seller” may stay without redemption while the ruined unit can produce unpredictable social complications. “Agreed” sum of redemption paid by the lower units is “privatized” by the upper units. There are various forms of redemption, depending on economic sector or region: difference between officially announced and privately bargained interest rate and stock price, coefficients in price-setting etc.

Such redemption is not one-time payment. In most cases, it is a price of terminal contract for creating and extracting the rent from the resource base, which is at the disposal of a certain unit. Periodical renewal of this contract with the revision of previously bargained conditions constitutes the key political and economic mechanism of the system’s self-reproduction. Superior bodies of the system try to monitor and control the amount of rent extracted by their subordinates through “fighting corruption”.

Supporting frame of the “multiple-track” model is still the political monopoly of the Leninist party-state, which penetrates the whole society and guarantees the norms of politically “rational behavior”, reproducing the principles of “soft-budget constraint” in both economic and political fields. In order to be able to do so party-state firmly and monopolistically controls and regulates the whole complex of national finance – banking and monetary policy, interest and exchange rates, taxation, stock market as well as price setting (“plan-market frontier”) in key sectors. It deeply penetrates all of these fields both institutionally and practically. The party-state acts in fact as the political and financial lender of last resort for the whole of institutional framework of the People’s Republic of China.

Chinese experts admit that finance and investment until now remain the “last bastion of the planned economy” in the country. Hence it is party’s power monopoly intertwined with party’s financial monopoly at the central and local levels of the party-state (“party-money symbiosis”), which secures internal cohesion of the whole “multiple-track” edifice from the danger of different “tracks” tearing apart. In my view, this “party-money symbiosis” is exactly the key systemic “bounding property line” of “socialism with Chinese characteristics”.

The most important structural characteristic of the “multiple-track model” is non-transparent and indissoluble “symbiosis” of “plan” and “market. Described mechanism of non-
transparent bargain under control and with mediation of the party’s political and financial monopoly in each concrete case designates to the “contracting parties” quite clear limits of the “market space”. “Market” here is not a “system” but a “practice” of speculative nature, used unevenly and with no clear regulations at different “floors” of the party-state, which still constitutes the core of the “system”.

Deepening “market reforms” in such a setting mean nothing else but multiplication of “contracting parties” and their “bargained tracks”. “Party-money” symbiosis constantly strives to reproduce itself, while the “contracting parties” aspire to bargain the best possible “track” conditions. Some “parties” may even intent to flee the setting completely. Hence comes the key dynamic feature of the “multiple-track” setting, namely the ability of both sides to maximize their ultimate goals (in given conditions) and the choice, made by the party-state of how to deal with the potential renegades – to negotiate with them, to annihilate them or to let them free. This choice depends decisively on the importance of the “contracting party” in question for the overall systemic stability and institutional survival of the Chinese Leninist party-state. Those “contracting parties” of vital systemic importance would never enjoy the right to flee the setting and their “bargained tracks” would remain under special direct supervision of the party-state. Empirical evidence shows that those annihilated are usually small and medium non-state enterprises, political units and personalities who broke the rules of “politically rational behavior”. Setting the “renegades” free happens mostly in halfway and shadow manner. Party-state tries to retain at least a section of the renegade under control and is extremely reluctant to admit openly that some other sections of the concerned unit are set free. Certainly, much depends on the unit’s informal potential and its subjective will to be set free. (Cao, 2005, p. 1-43; Lang, 2006, p. 55-99) This will, however, also should not be overestimated. Cutting for good the “leash”, which connects party-state and the given unit, may mean for the latter immediate qualitative hardening of it’s budget constraint with automatic evaporation of tracks through which one could privatize the profits and nationalize the costs.

In most of the cases, however, party-state prefers the renewal of bargain, using both carrot and stick.

The main methodological “drawback” of the Chinese and Western concepts of “incremental reform” and “systemic self-withdrawal”, was that they implicitly tried to separate the “plan space” from the “market space”, while on the ground of the “multiple-track” reality these two dimensions are deeply intertwined. This “drawback” may be rooted in a widespread perception, characteristic for reformers in the 1990s, according to which “market transition” in post-socialist countries, despite all its visible pitfalls, still is a “linear process”, which leads from the “state of plan” to the “state of market”. This perception might be not completely erroneous.
However, instead of looking for the signs that “market” is on the rise and “plan” shrinks, it is perhaps more important to clarify, which parts (institutions, units etc.) of the “plan space” must go through transition first, in order to avoid “multiple-track” lingering. If these parts are transformed (reformed, dismantled etc.) than the transition from the “state of plan” to the “state of market” becomes feasible. If not, then “incremental reform” becomes stuck in “transition trap” and what may look like “systemic self-withdrawal” at the beginning turns into “systemic self-disintegration” at the end.

Without dismantling this “party-money” monopolistic edifice all other “market reforms”, like those in the fields of price-setting, planning, banking, credit, currency, stock market, property etc. end up as further multiplication of the “tracks” within the “multiple-track” systemic setting under the “post-totalitarian” (J. Linz) monopolistic leadership of the Leninist party-state.

In the process of implementation and consolidation of the “multiple-track” setting Chinese party-state institutions indeed have shown very high potential for both sustainability and resilience. Allowing limited, regulated and speculative by nature resource turnover within the system, party-state retained its political, financial, ideological and coercive power monopoly. In my view, totalitarian (post-totalitarian, according to J. Linz) nature of the system remained untouched. This, at least to a considerable degree, explains socio-economic transformation and institutional continuity in China since 1978.

4. Macro-Economic Regulation as the Main Means of Systemic Self-Reproduction and Achilles’s Heel of the “Multiple-Track” Setting.

It is very characteristic, that in financial sector and in macro-economic regulation (certainly, as well as in political and ideological fields) Chinese party-state is least inclined to bargain with its economic and social counterparts. To be sure, some “bargain space” exists in these spheres also. In political and ideological fields, however, this “space” finds its limits within the Procrustean bed of “rational behavior”.

In national finance and macro-economic regulation, the story looks more complicated. Such deals as, for example, setting quotas for currency exchange or credit, are clearly subject to bargain. Cyclical struggle with macro-economic “overheating”, at least since the mid-1990s, each time begins with implementation of the so-called “indirect” or “market” methods of regulation that means raising interest rates and increasing the flexibility of taxation. Beijing government and many experts each time stress that “Chinese economy is already market-oriented enough to yield to indirect methods of macro control” and “contrary to previous cycles, now there is no need to use
direct administrative pressure”. However, with given Chinese “multiple-track” credit and investment mechanisms as well as interest rates and taxation subject to bargain, “overheating” repeats itself. Thus, central financial bodies of the party-state must drop the bargain and go for inevitable administrative limitations of credit, price regulations and other prohibitive non-market practices. (Fan – Zhang, 2005, p. 56-71) In other words, each macro-economic cycle in China starts with bargain and ends up with administrative repression that is an important mechanism of the system’s self-reproduction.

Important to mention, that in the given systemic setting, politically it is much easier to fight with deflation, than with “overheating”. In the case of deflation, it is simply enough to relaunch the “investment spiral” by easing monetary and credit supply. “Contracting parties” in the new tide of political loyalty would line up in a long queue, worrying only about how to get the bigger portion of financial doping. In the case of “overheating”, it is much harder to find a consensus, since the decreasing credit and monetary stimulus would clearly bypass quite a few “contracting parties” leaving them disconnected from the doping.

Interestingly enough, after thirty years of market reform in China, many country’s experts are still at a loss defining the borderline between macro and micro regulation in the national economy. They point at the evident lack of efficiency of the so-called “indirect” (or “market”) methods of macro regulation, like increase in interest rates on loans, and stress the need to use the measures of “direct” administrative intervention to prevent the national economy from falling into inflationary spiral. It should not be a surprise, however. Just the way the “market” and “plan” spaces are opaquely but inseparably intertwined, so are the fields and measures of macro and micro regulation in the “multiple-track” party-state systemic setting. At the same time, since each macro cycle of inflation ends up in administrative credit repression, those “spaces” and measures of “plan”, not “market”, still prevail in this dichotomy and constitute the key instrumental framework for the systemic self-reproduction.

Here is indeed a sort of a vicious circle. Party-state political and financial monopoly shapes the framework for half-reformed “multiple-track” setting with persisting soft-budget constraints for important economic and political units, thus laying the foundations for macroeconomic imbalances. On the other hand, it is the same party-state monopoly, which saves the setting from structural disintegration, preventing it from inflationary or deflationary spirals by means of “repressive” or “generous” “bailouts”. However, these “bailouts” – be they “directly repressive” or “directly generous” - reproduce the system with her genetic predisposition to irrational hunger for investment and subsequently deepening macroeconomic disproportions.

What has been happening to the Chinese economy since early 2013 is indeed very much instructive in this respect. New Premier Li Keqiang’s good faith attempts to upgrade financial
discipline and clamp “shadow banking”\(^1\) by means of vigorously disconnecting state “commercial” banks from the state budget on the eve of the announced interest rate deregulation provoked “liquidity crisis”, which – according to some experts – was in fact the crisis of accumulated domestic indebtedness. The “shortage of liquidity” (with M2 up to 200% to GDP!) threw national finance into semi paralysis and derailed interest rate deregulation. Since summer 2013, monetary authorities in Beijing had to resume pointwise financial stimulus, without, however, bringing it to its pre-2013 size. This helped, but not that much. Dramatic events on the Chinese stock market in summer 2015 and still controversial prospects for robust economic growth testify to the fact, that financial “withdrawal syndrome” in the Chinese economy is still under way.

Even if the definition of the Chinese “liquidity crisis” in 2013 as the “debt crisis” is technically correct, it is still far from the terms of “normal” debt crisis in capitalist market economy. The key problem is neither the debt itself, even if it is very large, nor methods of its restructuring. In the half-reformed socialist economy with the ruling party’s monopolistic grip on finance and investment the “contracting parties” may expect relative easy debt forgiveness and refinancing. The key challenge is, that these “contracting parties” seem to be incapable of operating adequately without constant inflow of financial doping, thus in fact perpetuating the existing model of costly investment-led growth, which in turn creates new socio-economic imbalances. To try to alter the “parties’” modus operandi in the given systemic setting – exactly what Premier Li Keqiang attempted to do in early months of 2013 with all this discourse of “financial market” and “credit deregulation” – may mean erasing the setting’s “bounding property lines”, which indeed can lead to unintended consequences.

In the light of the foregoing, the Chinese methods of “direct” macroeconomic regulation look not only as a systemic redeemer, but also as the Achilles’s Heel of the whole “multiple-track” setting. “Transition to market economy” in such a setting means multiplication of “tracks” and “contracting parties”, thus gradually but relentlessly complicating the overall structure of the arrangement. Central and local principal political and financial regulators – the Chinese communist party – has to deal with increasing number of “clients” inside and outside itself with different backgrounds and aspirations. It becomes more and more difficult to find “regulative consensus”, especially, in the field of generating and distributing financial doping. Paradoxically, it is the “expansion of the market space”, that makes direct administrative macroeconomic intervention pivotal for maintaining overall systemic stability. However, the methods of such intervention, even properly implemented, may be inadequate to the complexity of the issues, the national economy is facing. In my view, something like that happened to Premier Li Keqiang’s

\(^1\) The so called “shadow banking” in China operate predominantly with the state money, which they receive through legal, semi-legal and illegal channels from the big state-owned banks. (Zhu, 2016, p. 3-102)
“liberal” intentions in the spring of 2013 and continues to happen until the most recent time with regard to Chinese real estate and stock markets. Premier Li and his leading advisers, perhaps, seriously underestimated the very political economy of the Chinese domestic debt accumulation and overestimated the maturity and efficiency of the market institutions in the country’s economy. Subsequent attempts to cool down real estate and stock markets seem to underplay the potential of small investors’ panic.

Hypothetically, we can assume that sometime in the future such inadequacy of the Chinese party-state financial regulators’ “direct” intervention, albeit properly orchestrated and performed, may lead to a large scale deviant behavior of the “contracting parties”, causing fundamental systemic chaos and even collapse of the whole “multiple-track” setting.

In my view, the fundamental limit of the Chinese “institutional miracle” is that the party-state, although very much resilient in arranging, regulating and controlling the new principles and mechanisms of resource turnover, proved utterly unable to harden systemically the units’ soft-budget constraint. This leads to tremendous and to great an extent hidden macroeconomic misbalances creating eternal shadow of systemic collapse overhanging Chinese “market socialism” for decades. (Shih, 2008, p. 1-15; Walter – Howie, 2012, p. 91-145) Any attempts to solve this issue and to drive away the ghost of macroeconomic and institutional implosion – under unquestionable power and financial monopoly of the ruling party-state – inevitably turn into a bulk of command-administrative measures, which, while saving the setting in the given moment, perpetuate and deepen its fundamental ailments.

5. Janos Kornai’s “Genetical Code” of the Socialist System and China’s “Institutional Miracle”.

In his classic work “The Socialist System: The Political Economy of Communism” world-famous Hungarian economist Janos Kornai presented the pattern of “genetical code” of the Marxist-Leninist socialist system. (Kornai, 1995, s. 408-426) According to him, ideologically motivated and forcibly implemented abolishment of market institutions and practices in Marxist-Leninist party-state regimes leads to systemic domination of bureaucratic coordination and shapes the phenomenon of the so called “socialist planned economy”. This in turn determines the setting for forced growth, soft-budget constraint, harsh bargain over state-set plan targets between upper and lower levels of the system, producers’ and customers’ non-sensitivity regarding price indicators, persistent shortage of resources, increase in overall costs etc. He draws logically conditioned and intertwined scheme, where the key fundamental “genetical program” of the
system is encapsulated in the first block – Communist party power monopoly and domination of official ideology. In other words, any substantial systemic shift in any of the blocks from the second one to the fifth one is impossible without fundamental change in the block number one, which shapes operational genetics of socialist political economy.
It may seem that the Chinese experience of “transition to market” overrules Kornai’s iron logic at least in three respects.

First, Chinese, having retained party-state institutions and the dominant position of ideology intact, virtually abolished practices and institutions of central planning. In 1998 the State Council (government) structure of the People’s Republic of China underwent fundamental reform. State Planning Commission, which existed since 1952, was abolished and turned at first into State Development Commission. In 2003 the latter was also transformed and renamed National Development and Reform Commission of the PRC. Indeed, central planning in the strict sense known from pre-reform China and all other Marxist-Leninist socialist countries does not exist in today’s version of “market socialism with Chinese characteristics”.

Second, implementation of “double-track” price reform (in fact, as it was shown above, the shaping of “multiple-track” setting) made Chinese producers and customers much more sensitive to price indicators with the respective impacts on supply and demand sides.

Third, there is no obvious commodity shortage in today’s China.

Proceeding partly from these alterations, some Western China watchers even hypothesized that China simply ceased to be a socialist country. (Heilmann, 1998, s. 253)

In my view, the basics of Kornai’s socialist “genetical code” remain relevant and those who started to elaborate on the “end of socialism” in China are fundamentally wrong. However, in the light of the Chinese “market socialist” empirics, the contents and structural logic of Kornai’s scheme need some important corrections and updating.

The key amendment to the Marxist-Leninist socialist “genetical pattern” of political economy should be that of adding the clauses of “party-state non-market financial monopoly”, “party-state as pricing conditions systemic determinant” and “party-state as systemic lender of last resort” to the first block of Kornai’s scheme. This will allow to strike out state planning as a deal between the upper and lower echelons of the system and weak reaction to pricing from the fourth block.

Indeed, the fact, that “double-track” (de-facto “multiple-track”) price reform forestalled most of other transformations in the fields of economic management institutions and property structure allowed the Chinese party-state to diminish considerably the scope of central planning at quite an early stage of “transition”. On the other hand, and at the same time, this reform made producers and sellers more sensitive to price indicators. However, this sensitivity was defined by the party-state’s remaining financial monopoly (party-money symbiosis) and its role as pricing conditions determinant and systemic lender of last resort.

In other words, the bargained deals began being applied not to redefining directive state-set planning targets, but to seeking most favorable conditions for privatizing profits and
nationalizing costs within the “multiple-track” pricing setting.

Conditionally, it also may permit to extricate the clause about “domination of state property” from the second block with, however, definite retaining of “domination of quasi-state property”.

All this may conduce to better perception of respective impacts on the scale and structure of the phenomena of “forced growth” and “shortage” in the fifth block. The “forced growth” in today’s China means specific investment-led growth model, where the more party-state money is shoveled into economy, the higher is the “profit” from the bargained pricing deal in both banking and real sector and the higher is the redemption, privatized by the party-state and its clientele. The phenomenon of “shortage” becomes of a more structural character.

Anyway, party-state coercive power monopoly and the systemic units’ soft-budget constraint, inseparably intertwined with this monopoly, remain intact, making it utterly irrelevant to hypothesize that China by means of gradual market-oriented transformation managed successfully to cure intrinsic institutional, socio-political and macroeconomic ailments of the state socialist system, which turned incurable in the former USSR and its East-Central European socialist satellites.

On the other hand, this updated “genetical pattern” of Marxist-Leninist party-state socialism may better explain Chinese “institutional miracle”, i.e. sustainable compatibility of the ideologically legitimized ruling party-state institutions with the abolishment of central planning, high rate of economic growth and the spread of non-directive resource turnover in considerable portion of Chinese economy.
6. Conclusions

Systemic miracle did not happen in the People’s Republic of China, at least, so far. Ideologically legitimized Leninist party-state deeply penetrating national financial system and
investment mechanisms – “the last bastions of planned economy” – shaped “party-money symbiosis” with very specific practices of macroeconomic regulation, which constitutes the key “bounding property lines” of the “market socialism with Chinese characteristics.” Abandonment or erasing of these “bounding lines” may cause systemic collapse, rather than successful transformation. At the same time, these “lines” seem not yielding to incremental reforms, possessing very low adaptive capacities.

However, technical design of the Chinese “market socialism” looks indeed unique, compared to its East-European predecessors, mainly due to a peculiar market-oriented price reform, which has been developing in China in fact for the whole period of economic transition. This design was by no means anybody’s “sudden revelation” or the reformers’ original purpose. It took shape gradually in the process of the quest to reduce the transformational damage to the balance of interests within the concrete Chinese post-Mao socio-economic and political systemic setting. Initially planned as “double-track” pricing model, it just from the beginning started to evolve into what I tend to call a “multiple-track” arrangement, based on opaque, but inseparable “symbiosis” of “plan” and “market” price setting. The right to define the “frontier” between the two remains firmly in the hands of the party-state institutions of different levels, which also act as “patrons” for their “clientele” (“contracting parties”) in the process of bargaining about the concrete “track” conditions. Sometime by mid-1990s, such arrangement, originated in the price setting practices, expanded into other socio-economic fields in transition and thus became a systemic pattern of the “market socialism with Chinese characteristics”.

In other words, in the wake of transition to market, the Chinese communist party allowed the “clientele” inside and outside itself to put the accumulated administrative and economic resources into “market” circulation. However, it retained the pivotal right to define the rules and scale of this circulation. In order to reproduce the ability to retain this right, the ruling communist party constantly has to resort to “non-market” administrative means and methods of direct meddling into socio-economic practice. This means that unregulated, albeit, perhaps, not total political intervention is still far more important for the systemic self-reproduction, than the rule of law and indirect macroeconomic management.

Just the way the “plan” and the “market” being inseparably intertwined, so are the macro and micro management in the “multiple-track” arrangement. This fact causes a considerable confusion in Chinese and also partly foreign literature on the present and future of economic reforms in the PRC. Indeed, it may be quite difficult to grasp the cyclical resort to administrative macroeconomic repression in the economy, which seemingly lacks central planning. It should not be a surprise, however, since it is exactly this repression, which turns to be inevitable systemic savior in the “chaos” of opaquely bargained “plan-market frontiers” and soft-budget constraints.
Moreover, the looser these frontiers (constraints) are, the more there is the need for command meddling as the most efficient and time-tested instrument not only of macroeconomic management, but also of systemic self-reproduction.

Here, however, resides the key Achilles’s Heel of the “China miracle”. “Market transition” within “multiple-track” setting means primarily the multiplication of “tracks” and “contracting parties”. The whole arrangement is gradually becoming more structurally cumbersome and complicated. Macroeconomic administrative repression, albeit forced and seemingly efficient, may turn out inadequate to the socio-economic problems, which China is facing. Already now, there are some important signs, that it is exactly what is happening. Hypothetically, it is plausible to imagine, that eventually the inadequacy of the party-state’s “direct management” may lead to systemically disruptive deviant actions of its “multiple-track” clientele.

The hypothesis of “multiple-track” setting as a systemic pattern for “post-totalitarian” China may better explain the compatibility of high socio-economic dynamic with the “irrational pattern of political domination” in this country. In other words, it gives feasible methodological framework to comprehend potential as well as limits of the Chinese “institutional miracle”.

The “multiple-track” hypothesis also allows delineating the systemic “bounding property lines” of the Chinese “market socialism”, which until now seem to be the least modifiable. Theoretically, no one, of course, can exclude the possibility of the Chinese party-state’s eventual gradual evolution. However, in my view, so far there are no enough empirical proofs to support such assumption.

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