Explaining Political Economy of China's Transition to Market: "Multiple-Track" Model

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Abstract

The paper casts doubts on explanatory potential of the models of "incremental double-track transition" (Fan Gang, Zhang Yu etc.) and "system's self-withdrawal" (M. Csanadi) widely applied to the analysis of market reforms in China by some Chinese and foreign scholars.

According to "incremental reform" concepts, the successes of market transition in China are attributed to the gradual decrease of "plan economy space" and simultaneous increase of "market economy space" which became possible mainly due to introduction of "double-track" price reform in the early 1980s. According to "system's self-withdrawal" approach that in China there is "absolute shrinkage" of the "plan economy net" which makes China's transition qualitatively different from the former East-European and Soviet experience with market oriented reforms.

The paper below examines methodological pitfalls as well as empirical discrepancies of these approaches and elaborates on the concept of "multiple-track" model which may better explain the dynamics of systemic changes and continuities in China's transition to market economy.

Key words: political economy, China's transition to market, incremental reform, system's self-withdrawal, "double-track" price reform, "multiple-track" model

The paper casts doubts on the explanatory potential of the models of "incremental double-track transition" and "system's self-withdrawal" widely applied to the analysis of market reforms in China. It also elaborates on the concept of "multiple-track" model which, the author believes, may prove to be more relevant in explaining dynamics and pitfalls of China's transition to market economy.

The first part of the paper gives an epitomized survey of "incremental reform" and system's "self-withdrawal" models in the field of today's China studies.

The second part deals with the theoretical obscurities of these models and with some important aspects in which their explanatory potential is at variance with the realities of China's transition to market economy.

The third and the fourth parts examine the contents and dynamics of the so-called "double-track" price reform in China while it was exactly this reform that served as empirical foundation for working out the Chinese "incremental reform" model.

The fifth part focuses on the relevance of the term "double-track price reform" and its connection to empirical reality.

The last part of the paper elaborates on the concept of "multiple-track" model which, according to the author, may better explain both systemic change and systemic continuity in China in the period of market reforms.

Explaining China's Market Transition through the Model of "Double-Track Incremental Reform"

In the first half of the 1990s a number of Chinese economists put forward the concept of "reforms beyond the system" (*tizhi wai gaige*, 体制外改革). Their main idea was that in China, unlike in the former USSR and Eastern Europe, market transition started not with dismantling the "old system" of planned economy but with the creation of a new "market space" beyond the "old" institutional limits, parallel to them. Such approach, according to these experts, greatly helped to reduce transition costs, i.e. to minimize the resistance of the "old" institutions, to preserve socio-political stability and to create a new balance of economic interests within the Chinese ruling elites and society. The so-called "double-track" price reform ("*shuanggui" jiage gaige*, 双轨价格改革) – parallel existence of "planned" and "market" prices in Chinese economy – served as the key framework of this transition model. (Miao Zhuang 1992: 15; Diao Xinsheng 1989: 18)

Explaining why it was the price reform that laid the foundation for theoretical model of China's market transition Sheng Hung wrote: 'In the 1980s price reform was the central and most difficult task among other market reforms. Government as well as economic theoreticians perceived it as the key step in market transition… Most of the experts reached a consensus regarding necessity to substitute planned pricing with market pricing. Bearing in mind that the system of pricing is not only the guiding principle for distribution of the resources available but also a certain model of [social] interests' distribution, the main difficulty in price reform was how to minimize the damage to the interests' balance in the existing system while introducing market prices… Doing research on price reform many experts became fully aware of the fact that the model of interests' distribution is the key element in the whole process of transition. That is exactly why we tend to concentrate the theories of market transition in China around the theory of price reform' (Sheng Hong 1996: 63).

According to reform oriented Chinese scholars of the 1980s-1990s, parallel existence of "planned" and "market" prices in Chinese economy created "double economic space". Moreover, the "double track" price reform and other market oriented changes "beyond the system" were supposed to form a new property structure. While in the "plan space" the state dominance continued, in the "space beyond the system" priority was given to alternative forms of property – "individual", "cooperative", and "private".

Almost at the same time Chinese researchers put forward the concept of "Chinese style incremental reform" (*Zhongguo shi zengliang gaige*, 中国式增量改革).

They meant that after fulfilling the state plan, enterprises which remained in the "plan space" can sell the produce exceeding the plan target on the "free market". Gradual reduction of a "state plan produce" portion and increase of a "free market produce" portion will lead to a considerable reduction of the "plan space" in Chinese national economy and in the long run – to the final dominance of "market space". It was also believed that related changes will gradually proceed in the fields of property, labor, administrative regulation and even political system.

In the early 1990s these concepts were proposed and discussed in a small and fragmented format of journal articles. However, by the middle of the decade there was a number of research monographs published in China which put a claim on fundamental theoretical understanding of the Chinese "way of gradual market reforms". In my view, at least two of them deserve close attention, as the have paved the path for "double-track incremental reform theory",.

The first of them titled "The Analysis of Political Economy of Gradual Reform" by Fan Gang, a famous Chinese economist, was published in 1996. The author places his approach to China's market transition into the framework of Neoinstitutional theory, widely using the term "incremental reform" which he translates into Chinese as *"zengliang gaige"* (增量改革). In Fan's view, the choice between "gradual" and "radical" reform strategies is defined not so much by the country's political leadership (government) as by the balance of certain interest groups and "social demand" within "the system". Government only moderates these interests and demands. Moreover, Fan Gang believes that such terms as "gradualism" and "radicalism" are nothing more than descriptive categories with limited explanatory potential. Pointing to the difference between market reforms in China and the former USSR (as well as in Eastern Europe) Fan Gang writes that 'The main characteristic of gradual change in our country [China] is that, taking into account considerable resistance of the old system, we did not touch it but started to develop the new system (new socio-economic structures) outside but near and around the old one. After [these new structures] became more mature [we] began dealing with reforms within the old system. In the former USSR and countries of Eastern Europe…it was necessary (only possible) to start with the reforms of the old system from the very beginning… The key essence of gradual reforms is that they are incremental. The term "incremental reform", used by D. North, is more appropriate to define [these reforms] than the concept of "gradual reform" which points more to the speed [of the reform]' (Fan Gang 1996: 152-3).

Fan Gang directly ties up the "success of incremental reforms" in China with the implementation of the "double-track" price model and uses the terminology of "double-tracking" to characterize transition in other spheres such as property, labor, housing etc.

To understand perfectly Fan Gang's logic (as well as the logic of other adherents of "double-track" transition theory) it should be born in mind that while depicting the "old plan system" he uses the term "remaining volume" (*cunliang*, 存量) and while depicting the "new market space" – the term "increasing volume" (*zengliang*, 增量). Apparently this should be understood as the presumption of the fact that the "new market space" grows slowly but steadily while the "old plan system" shrinks accordingly.

The author believes that "double-track" incremental transition also has considerable social costs and will last for a long period of time but is anyway to be finished with within the life time of one generation.

The second fundamental monograph on the theory of "double-track transition" titled "Along the Road of Transformation: Analysis of Political Economy of Gradual Reform in China" by a Chinese economist Zhang Yu was published in 1997. Unlike Fan Gang, Zhang Yu does not point to any connection between his research and foreign "systemic theories" being totally preoccupied with "political economy of Chinese reforms".

First, he stresses that it would be a big theoretical mistake if one completely separated "old plan space" from the "growing market space". Market reforms, according to Zhang Yu, proceed both "beyond the remaining system" and within it. Implementation of household contract practices in agriculture, development of the non-state sector, elimination of upper limit on price fluctuations for the produce in excess of the plan – all these are the market reforms "beyond" the "old system". Expansion of managers' responsibility in the industrial state-sector, joint stocking of the SOE, budget, banks' and tax reforms are related to the growth of market factors within the "old system". Therefore, 'the old and the new are connected with each other and inherit from each other…Previous economic and political structures as well as the structure of social interests remain relatively stable and do not lose their foundations which were created historically.'(Zhang Yu 1997: 51-57)

Second, the author unambiguously points to the imperative need of deep reforming within the "old system". While reading the works of Fan Gang, one may sometimes get an impression that with the sweeping "incremental change" the "old system" may one day vanish into thin air. Zhang Yu's approach clearly sets hope for eventual success in market transition not only on the change "beyond the system" but also on the change inside it.

The analysis of the experience of economic reform in the PRC in the 1980s – early 1990s, as well the conceptual approaches of the Chinese theorists, described above, seem to have inspired a number of Western experts to draw far reaching conclusions regarding the dynamics and outcomes of market transition in this country.

According to my knowledge, the most consistent perspective for the Chinese "double-track" reform in the Western literature that has been presented so far belongs to Maria Csanadi, a Hungarian economist and post-communist transition researcher. (Csanadi 2006) She depicts the "old system" of party-state and planned economy as a "net" in which dependencies, extraction and distribution of recourses as well as interest promotion possibilities are politically monopolized by the ruling party. Due to dominating "soft-budget constraint", the "net" is exposed to constant shortage of recourses. Csanadi extrapolates Janos Kornai's concept of "soft-budget constraint" in socialist economy into the political sphere which is monopolized by the ruling communist party. She means that the party grants its permission to exist and to self-reproduce only to those "units" of the "net" which abide to the rules of "politically rational behavior". Thus, the "net" is squeezed between the constant shortage of economic recourses and institutional (political and ideological) "form-fitting" and "self-reproduction". 'Due to the lack of efficiency constraints, the process of self-reproduction will lead to the occasional hardening of reproduction constraints and to the loss of cohesion of the structure as a whole. Structural specifics will introduce the traps of self-reproduction, inciting political rationality and the lack of efficiency concerns in self-reproduction process and thereby self-consumption during self-reproduction' (Csanadi 2006: 39). Hence, transition to the market economy which presupposes growth of economic efficiency and erosion of the principles of "political rationality" means "self-consumption" of the "net". However, in different communist countries such "self-consumption" follows different "patterns", which depend on the degree of centralization-decentralization of the political powers to extract and allocate the resources.

In the case when such powers are strongly centralized and the economic "feedback" is weak id any, the "net" follows "self-exploiting" pattern which means a further repressive centralization in order to be able extract the resources. Thus, the system's 'collapse will be sudden and abrupt'. (Csanadi 2006: 73) According to Csanadi, this is the case of former socialist Romania.

The next possible pattern is that of "self-disintegration". It occurs when the 'power is such that interlinking threads are overwhelmingly centralized but there is strong economic feedback within the net and extraction is also centralized'. (Csanadi 2006: 78) In other words, a number of the "nets's" subjects possess considerable capacities to resist the measures of centralized recourse extraction and redeployment. Therefore, 'these measures (introduced by the party-state central organs – *M.K.*), if implemented, are selective according to selective resistance capacities… This trap leads to further decentralization, to having fewer resources to mobilize within the net and slimmer possibility of centralizing resulting in more frequent hardening of reproduction constraints on the macro level… The reform escalation, however, will occur parallel to the decline in the capacity to extract, centralize and redistribute resources… Besides, the intensity in the use of the net will decrease, since expectations for resource allocation through the net decline' (Csanadi 2006: 68-70).

Collapse of the system in this case is "mild" and will be 'followed by political evolution, accompanied by disintegration of the state property, and simultaneously… transforming state functions' (Csanadi 2006: 74). Csanadi believes that the "self-disintegrating pattern" is illustrative of Hungarian transition.

The third "pattern" of the "net's" self-consumption is "self-withdrawal" and, according to Csanadi, this is the case of Chinese transition. "In this pattern interlinking threads are either centralized or decentralized; there are strong economic feedbacks from several dimensions of the network and resource extraction capacity is partially decentralized. Therefore, there is increased resisting capacity to resource extraction and lower dependency from the higher levels due to alternative local resources extractable resources are created by allowing increases in the number of resourceful units outside the net and the creation of institutional conditions for this process". This includes letting the exchange of exceeding-the-plan products at the market prices to increase revenues outside the net, enhancing conditions for domestic private enterprises and thus allowing SOEs to create private daughter companies; letting individuals of state administration to temporarily or conditionally leave the net for private enterprise; and enhancing private plot cultivation. It also includes allowing the *infiltration* of resources from outside the net by… attracting FDI to create joint-ventures, transforming SOEs into shareholding enterprises… lifting up barriers to labor mobility, price setting and product and capital flow. Csanadi remarks that 'one of the ways to increase the alternative field in China was the so-called dual-track system which implies the existence of a two-tier pricing system for the goods under the system: a single commodity will have both a (typically low) state-set price and a (typically higher) market price' (Csanadi 2006: 70-71). In this way, the "net" will shrink in both relative and absolute terms. "Relative shrinkage" means "creating a transformed sub-field outside the net". 'Absolute shrinkage" presupposes direct or indirect "withdrawing interlinking and hierarchical lines… It may also occur when the state withdraws completely, or partially (e.g. from different industrial sectors) winding up state functions and respective organizations' (Csanadi 2006: 71). 'The larger the field outside the net, the stronger the interaction and traffic of values, organization and manpower between the net and the field outside of it will be…' (Csanadi 2006: 72). Abrupt disintegration of the "net" can be avoided due to the progressing – gradual, but constant – "absolute shrinkage". Csanadi writes that 'as a result [of such reform pattern] growing competitive pressure from outside the net makes the net shrink absolutely in the realms of the fused economic sub-field. State property is sold out or closed down, interlinking threads are withdrawn, broken, left in limbo, empty or weakened – and bureaucracy shrinks' (Csanadi 2006: 72). Regarding the possible outcome of the "self-withdrawal" pattern for the "net" itself, Csanadi does not use the term "collapse" but prefers to characterize it as 'gradual demise of the structure as a whole' (Csanadi 2006: 75).

What is wrong with the "Double-Track" Transition and "Self-Withdrawal" Explanations?

Careful reading of the texts which promote the "incremental reform" approach reveals that they are strikingly self-contradictory in many points.

While complimenting the "incremental reform" for "lower transition costs" Fan Gang, for example, suddenly admits that the "old system" within the framework of "double-track" transition not only retains ability to self-preservation but even to self-reproduction on a larger scale. He writes about the inevitability of irresponsible non-normative rent-seeking practices from the double-track pricing. When fighting such behavior the government has to use "plan control" which, however, leads to 'market economy being rejected, recentralized, its development is ruined by different adjustments and regulations… New income produced in the new [market] space can be transferred as compensation to certain interest groups which suffer from deepening reforms and used as means for subsidizing the old system… helping its vegetation or even reproduction on a larger scale' (Fan Gang 1996: 187-8). The author enlists the detrimental "birth-marks" of the "old system" which persist under the conditions of the "incremental transition": unfinished price reform, state monopoly over banks and interest rates, soft budget constraint for the state sector, corruption and rent-seeking, poor financial discipline and low norm of profit.

Zhang Yu points to the extreme complexity of the "gradual reforms", especially in the fields of political administration and "separation of politics from economy". He contends that at present *'incremental reforms are unable to create necessary conditions for the* [successful] *market transformation of the "plan space'* – italics mine (Zhang Yu 1997: 183).

Yet the most interesting and meaningful self-contradictions, to my mind, could be found in Maria Csanadi's "self-withdrawal pattern". It follows from the general logic of her argument that neither in "self-exploiting" nor in "self-disintegrating" patterns there is such a phenomenon as "absolute shrinkage of the net". "Absolute shrinkage" occurs only in case of "self-withdrawal" and thus makes this pattern unique in comparison with the other two, hypothetically allowing replacing "systemic collapse" of the "net" with its "gradual demise of the structure as a whole". It is also "absolute shrinkage" that creates conditions for 'the party's transformation – at a postponed time – from a politically monopolized institutional power structure into a political entity' (Csanadi 2006: 75).

But then Csanadi – quite unexpectedly for an attentive reader – writes the following: 'Due to structural specifics, absolute and relative shrinkage of the net will not develop at the level of the unit as a whole – but on scattered spots (sub-units) of the structure at different levels of aggregation and at different units of a given aggregation level… Therefore, this pattern will suffer partial, scattered and selectively advancing sub-unit disintegrations and evolution throughout the net…'

(Csanadi 2006: 75). In the corresponding footnote the author explains that by "structural specifics" she refers 'to the functioning of self-similar rule of selection criteria: the potential politically rational selection in allocation and extraction among both authorities, and within authorities' discretion among enterprises according to their strategic importance (size, political position) within the higher aggregation' (Csanadi 2006: 75).

It seems to me that here the author revokes almost all what she has written before about the meaning and the role of "absolute shrinkage of the net" and the "self-withdrawal pattern". Indeed, the passage above, if put in other, somewhat simpler words, means that none of the "net's" units can abandon the "net" in full. Moreover, the main structural parameters of such "abandonment" (size, degree, time and place) are to be defined by the higher political levels of the "net" (i.e. ruling communist party) according to criteria of "political rationality". This in turn means that, at least, hypothetically, there are some politically important units of the "net" that cannot be and will never be allowed to abandon the "net". In another passage, which appears later, Csanadi also writes that 'the nomenclatura prevails in the shrinking net, both concerning the remaining state-owned economy, the bureaucracy and financial fields' (Csanadi 2006: 292).

There is a good reason to believe that these are exactly the units which guarantee the "net's" internal institutional cohesion and the domination of "soft-budget constraint" principle of "political rationality". Examined from this angle, all sorts of "absolute shrinkage of the net" inevitably look like "relative shrinkage". Therefore, it becomes increasingly difficult to distinguish the "self-withdrawal pattern" from the "self-disintegrating" one.

Csanadi also writes that under the conditions of "self-withdrawal pattern" 'chances for achieving macro equilibrium are good, and chances for a successful economic reform outside the net are high' (Csanadi 2006: 78). This assumption implies that such spheres as monetary policy, interest and exchange rates, stock market and investment mechanisms, etc. have already gone through a substantial market evolution. However, such assumption runs counter to the Chinese empirical reality and to Csanadi's own statement that nomenclatura 'still prevails in… financial fields'.

Chances to achieve macro equilibrium in Chinese national economy look not so good, with given constant cycles of "overheating" and "overcooling" throughout the whole period of market reforms (Fan Gang, Zhang Xiaojin 2005: 3-66).

Another important question is connected to what happens within the "old plan space" or the "net" while it is being "squeezed" ("self-withdrawn"). The final outcome of the whole transition depends on it. If the "space of command economy" only shrinks in size without substantial internal "market evolution" than the eventual dismantle of its key political and economic units will cause "revolutionary collapse" – be it "hard" or "soft". If the "net's" shrinkage proceeds simultaneously with the gradual but consistent renunciation of "soft-budget constraint rationality" within it, than the "evolutionary demise" of the "net" becomes possible.

Although it would be wrong to say that the adherents of "incremental reform" have not dealt with this significant question, neither Csanadi nor her Chinese conceptual predecessors give clear and convincing answers to it.

Csanadi, for example, writes that within the "net" there are accumulating tensions and economic decline which contribute to its "absolute shrinkage". On the other hand, she admitted that 'the disintegration and withdrawal of the net, despite competitive pressures, does not necessarily imply the change of rationality and priorities within the remaining net. It reacts only with the narrowing of the circle of those privileged' (Csanadi 2006: 73). This passage suggests that systemic mechanisms within the "net" do not go through substantial change during the process of its "self-withdrawal". Hence, systemic collapse looks, at least, no less possible, than in the case of the "self-disintegrating pattern".

Despite such conceptual self-contradictions and obscurities, throughout the 1990s and in even in the 2000s the "double-track incremental" approach seemed to be a leading one in explaining what looked like success in China's transition to market economy. The "double-track transition" and "self-withdrawal" approaches were theoretically sophisticated enough to give reasons for both political conservatism and economic dynamism in China since the Tiananmen massacre. I believe that they also played no less important "spiritual role". Being "pro-reformist" at their heart, these approaches showed the "eventual historic expediency of the party-state" to the Chinese reformers thus laying the "scientific foundation" for psychological reconciliation with it, at least for the time being. Moreover, "incremental" explanations seemed to give empirically rooted ground to believe that it is China that can manage gradually what proved to be unmanageable – either in gradual or "shock" way – in the former USSR and Eastern Europe. "Chinese miracle" – not only in terms of quantitative GDP leap but in qualitative terms of systemic transition – was looming so near.

However, since the mid-2000s, growing new empirical evidence from China has changed a theoretical tune to some extent. The view, according to which China found itself in a sort of a "transition trap", has started to be more and more energetically attacked by a number of experts who used to be generally positive about the pace and outcome of market reforms in this country.

In his book "China's Trapped Transition", published in 2006, Minxin Pei (裴敏欣), for example, openly doubts the validity of the common explanation of Chinese would be success, namely that the gradual transition is a superior strategy in comparison to "shock therapy" and that robust economic performance inevitably paves the way to the regime's political liberalization. Pei argues that corruption in China became "endemic" and "systemic". Instead of evolving into a mature market economy what emerged in the People's Republic was a "decentralized predatory state" in which local elites effectively privatized the state's authority. Pei believes that China is trapped in stagnant 'equilibrium of partial economic and political reforms (Pei Minxin 2006: 135).

In the most recent publications of Sun Liping (孙立平), a famous Chinese sociologist, the idea of China being trapped in a half-way transition is also elaborated with considerable precision. He writes that 'in the reform processes of the 1980s systemic change spurred social transition, formation of new social forces and new arrangement of relations between them. Throughout the 1990s in the wake of progressing systemic change these new social forces and the relationships between them began to be fixed. It is from this time on that fixed [social] forces began to influence the systemic change and [thus] the distorted mechanism of change finalized its design' (Sun Liping 2012). What eventually evolved is termed by Sun a "fixed transition system" in which political authority and economic powers merge and are used together.

To clarify the dynamic parameters of what looks like "trapped transition" it is worth recovering the pace and structural characteristics of the Chinese "double-track" price reform which has been at the heart of the country's transition to the present day state of its "market economy".

Chinese Path of the "Double-Track" Price Reform

The price reform in China, introduced as a priority step from "above" in the 1979-80, forestalled many other measures aimed at market transformation, such as property, bank, tax or administrative reforms. The new mechanism of pricing, which took shape in China by the mid-1980s, was named "double-track" implying the parallel existence of "plan" and "market" prices in the national economy. To my knowledge, the first expert to use the term "double-track price reform" in the context of Chinese market transition was Chen Xu (陈旭), who published an article on the pricing of steel in June, 1985 (Chen Xu 1985: 35-45).

Logic and principles of "double-track" pricing were definitely not alien to the Chinese managers, economists and politicians. The elements of "double-track" pricing in agriculture could be found in the early years of the People's Republic and in the first half of the 1960s, when the Chinese leadership had to deal with the disastrous consequences of the "Great Leap Forward". Throughout the 1980s, when the "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 exceeding the plan on a "free market' (Zhang Guangyuan 2002: 87-88).

On the whole, the implementation of the "double-track" price reform in China in the 1980s was essentially the quantitative expansion of mechanisms familiar from the past, with which the communist leadership effectively got over the shortages on the domestic market. Decentralized decision-making and resource allocation made radical price "liberalization" technically impossible. The two known attempts to implement total price deregulations ended up either as a "silent bureaucratic failure"- like in 1986 (Shirk 1993) -, or as a "sound crisis" – like in 1988-89. 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".

Thus the "double-track" conditions themselves were far from being samelike. On the most general level Chinese experts usually allude to "sectional" and "proportional" variants of the "double-track" price model (Yang Shengming, Li Jun 1993: 28-29, 108-9).

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

The "proportional" variant presupposes "implementation of market mechanisms at the each enterprise. At the beginning market [pricing] mechanisms are to work [while selling and buying] only for the produce which exceeds 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 Shengming, Li Jun 1993: 29).

In reality, however, the "double-track" price model is a queer and multidimensional combination of these two variants.

To understand how the "double-track" pricing functioned in practice and to estimate adequately its role in China's transition to market economy, one has to answer three interrelated questions.

First, according to what criteria the border between the "planned" and "market" spaces is designed in both of the variants?

Second, what is the ratio of the volume between these two spaces?

Third, who has the right to draw the border between the two spaces?

Regarding the first question, empirical facts testify that this border has always been very mobile, moving periodically both into directions of "plan" and "nonplan", depending on particular political, administrative, economic and social conditions. In other words, this border has almost always been a "grey zone", frequently impenetrable for an external observer. Thus 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 have been eager to get raw materials and equipment at "planned" prices and sell their produce at "market" prices.

The best answer to the second question could be found in the following citation from Chinese experts of the mid-1990s: 'So far as currently market prices are considerably higher than planned prices, the producers want to sell their produce at market prices but to buy raw staff at planned prices. Volume proportions of used planned and market prices for the most part are subject to bargain between enterprises and the government. Thus, it is extremely difficult to say what these proportions are' (Yang Shengming, Li Jun 1993: 111).

The answer to the third question is much more obvious. Party-state institutions had the final say in defining the design of the "plan-market frontier". Some Chinese observers openly stated that 'although vertical administrative character of the [communist party's] cadre selection on the enterprise level had many drawbacks, still it helped the government greatly… in exercising price control and systemically guaranteed planned distribution under the "double-track" price reform. Confusion and muddling between the prices' "tracks" led only to some violations [of the "double-track" principles] but not to the total collapse [of the "double-track" arrangement]' (Zhang Tao, Wang Lipin 2008: 91). In other words, if it was not for the vigilant eye of the ruling party-state, the "plan" and "market" spaces would simply mix up in chaos and the question about their proportionate correlation would lose any sense.

Having said that the final design of the "plan-market frontier" in "double-track" pricing remained in the hands of party-state organs, it should be also remarked that the implementation of the "double-track" price model went simultaneously with the decentralization in decision-making. Therefore, the role of local authorities in defining the parameters of this "frontier" was gradually but steadily growing.

At the same time the confusion in central and local organs' responsibility over price decision-making, inherited from the pre-reform period, also tended to increase. On the central level there remained some ambiguity in power division in this sphere between the State Council leadership, the State Council Price Department, the Economic Commission and the State Office of Price Formation. The same confusion was reproduced at the level of local governments. Besides, there mushroomed different "centers of price information", "centers for training experts in price setting", "price departments", etc. Most of these newly born organs existed under the auspices of local administrations (Li Huizhong 1998: 161-170).

Covert and at the same time harsh bargaining developed all along horizontal and vertical lines of the party-state bureaucracy and enterprises' management. First, lower levels of the party-state hierarchy lobbied for getting from the center more power in price-setting decision-making. Second, corresponding economic organs fought for more power on the horizontal levels. Third, enterprises of both central and local subordination lobbied the party-state organs for more price-setting possibilities as well as for an "optimal" (from the point of view of the enterprises) ratio of the "plan" and "market" spaces.

Regional diversity between "double-track" pricing models was accepted as something given by most Chinese economic experts: 'In such provinces as Guangdong, Fujian, Hainan, where reforms proceed at a higher speed, market prices should be used on a larger scale. But in the central regions, as well as in the South-West and the North-East, in the poorer regions, conditions for price deregulation are still not mature. In these parts [of the country] plan prices are still widely used. Hence, the variety of "double-track" [models] is inevitable' (Yang Shengming, Li Jun 1993: 135).

Here are some local variants of the "double-track" pricing.

The *model of Shijiazhuan* (named after the capital of Hebei province) became wide-spread in Northern and North-Eastern provinces after 1984. In this model the enterprises – consumers of such resources as steel, cast iron, timber and soda, were allowed to buy these raw materials in full volume they needed, directly on a "free market", without waiting for delivery of a planned supply quota. Subsequently, local governments compensated them the difference between the market and plan price for the part corresponding to the volume of their planned supply quota. By the early 90s compensation had been reduced to 90% of the planned quota price, leaving the rest 10% for the local governments' "development funds" which in reality served as "subsidiaries funds" through which the governments could bail out regionally important SOE.

There is a good reason to believe that such practice intensified competition between local enterprises for access to the local governments' funds. It also sharpened the bargain between enterprises and local authorities for the volume of planned supply, because the latter directly influenced the volume of compensation.

The *model of "aggregate average price"* was born within the Department of Price Formation of Jiangsu province and began to be used in Jiangxi, Hubei, Hunan, Sichuan and Anhui. In the middle of 1985 the provincial government of Jiangsu committed all enterprises to sell and buy coal for the unifed price which was calculated as an "aggregate arithmetical mean" between the "planned" and "non-planned" prices. Later such practice embraced steel, timber, crude oil and oil-products, mineral fertilizers. The Provincial Department was obliged to calculate the whole amount of costs and the balance between supply and demand for each sort of goods and raw materials for the given period of time (no longer than six months). Then, the Department calculated the "arithmetical mean" between the obtained sum and the "planned state price", thus elaborating "the final price to be used" within the province (Yang Shengming, Li Jun 1993: 120-3).

In some provinces and regions, primarily in South-West and North-West China, local authorities took seemingly paradoxical steps, introducing plan quotas for delivery of goods and raw materials to manufactures on the one hand, and on the other, allowing them to sell their produce for "non-planned" or "contract" prices. Such practice, however, helped to solve many acute problems of local governments in comparatively poor regions, consolidating their tax base, creating new sources of bureaucratic rent, strengthening administrative and financial control over important production units.

Central government, as well as regional authorities, also introduced the so-called "*calculated prices*" or "*prices of special decision*" in a number of industrial branches and localities. According to official explanations, such prices "were better than "planned prices" because they took into account costs, supply and demand", but still they were neither "free", nor "contract". Chinese experts called them "cost-accounting", "best planned", "shadow prices".

It should be mentioned that this list of "double-track" versions is very far from being full.

Getting out from the "Double-Track" Path

After the mid-1980s the "double-track" pricing model started to provoke sharp discussions among Chinese experts and even in some parts of political elite. "Double-track" was looked upon as the main reason for promoting corruption of all sorts, inflation and price hikes, shadow outflow of the state capital and general loss of macro equilibrium.

The reformers in Beijing had to face the problem of how to control and administer "double-track" pricing from the center. In my view, the quest for the solution of this dilemma was at the heart of a big discourse which took place between 1987 and 1989.

Those who vehemently criticized the "double-track" pricing practices, could be clearly divided into two factions.

The first faction supported further resolute deregulation calling for the quick transition to "one-track market pricing".

The second faction of "prosecutors" saw the solution in restoring the pre-reform pricing model, being in favor of strict administrative credit limits and re-centralized price control.

By the end of 1987 Chinese leaders began to face a tangible macroeconomic confusion, growing social discontent and deepening ideological and personal split at the highest level of the party-state ruling elite. Deng Xiaoping's attempt to accelerate the market-oriented price reform in the spring of 1988 and with its help to cut the Gordian knot of imminent socio-economic problems turned out to be unsuccessful and led to the political crisis and bloodshed of June 4th, 1989.

Diao Xinshen (刁新申), a Chinese economist, made the following comment in the early 1989: 'The biggest problem of the "double-track economy" is that one cannot clearly separate "plan" components from "market" components. Traditional plan system is not preserved within certain closed framework. It tangibly 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, under certain influence of the limited market, "plan" components change too and "traditional [administrative] methods of management also lose their former efficiency. Thus totally unregulated meddling into market gains utmost importance. In the end, both "plan" and "market" become inadequate' (Diao Xingshen 1989: 15-29).

Almost a decade later there arose a discussion among Chinese economists, Sheng Hong and Zhang Jun.

According to Sheng Hong, in a classical command economy all its units are parts of a vertical hierarchy. Units of each level have their "planned duties" and "planned rights". "Planned duties" mean the obligations of the upper units to deliver certain ("planned") amount of resources to the lower units. "Planned rights" mean the entitlement of the lower units to receive this "planned" amount of resources. In the conditions of "double-track" pricing both such "duties" and "rights" acquire a certain "cost (money) dimension". As long as the units prefer to receive the resources at "planned" prices and to sell their produce at the "market" prices, this "cost dimension" is tied to the difference between the resources' "planned" and "market" prices. Sheng Hong believed that in order to implement market price-setting in Chinese economy there was no need to carry out socially painful "price liberalization". One should simply "monetize" "planned duties and rights". By this he meant that each lower unit of what used to be a command hierarchy "buys out" its "planned rights" for money from the corresponding upper unit, while the upper units "sell" their "planned duties" to the corresponding lower units. In other words, enterprises could buy all resources they need and sell their produce in full at "free market" prices. However, they had to pay back to the upper bureaucratic agencies the difference between "planned" and "market" prices for the part of the resources which they were previously entitled to receive from them at "planned" prices, but now actually bought at "free market" prices. This price difference, being returned back to upper units, becomes their "share" in the corresponding lower units. Thus former "commanding" agencies of plan hierarchy turn into the "subjects of market economy". They stop being obsessed with bureaucratic distribution and begin being interested in improving the quality and maximization of their "shares" in fully market-oriented lower units.

At the same time Sheng Hong stressed that 'the key systemic condition for the monetization [of "planned rights and duties"] is the transparency of the market. This basically means that all procedures of purchase and sale, price-setting, qualitative and quantitative indicators are to be open and transparent' (Sheng Hong 2003: 25).

Zhang Jun's objections concentrated around the fact that in the "classical command" economy as well as in the Chinese "double-track" model, the "duties" and "rights" of all units, on the one hand, are "judicially fixed". By this Zhang Jun apparently wanted to say that they all remain within the party-state "setting". On the other hand, however, both administrative and economic units have certain "informal potential". Resource which can be obtained through "informal potential" would never be sold on the "free market". Quite the opposite, units would "speculate" with it in order to expand their "informal potential" within given "judicially fixed setting". Implicitly, Zhang Jun seemed to come to a conclusion that actual transition to market pricing is possible only after profound changes in this "setting" (Sheng Hong 2003: 223-31).

It can be said that the arguments of Sheng Hong are right and wrong at the same time. Zhang Jun's objections look very convincing. Indeed, while describing the logic of "buying out" of "planned rights", Sheng Hong manages to outline some key aspects of the "double-track" political economy. The Shijiazhuang price reform model, as well as other "double-track" versions, clearly supported the reality of agreed monetized "exchange" of "rights" and "duties". They also testify to the fact that the "cost dimension" of such "exchange" was tied to the difference between "plan" and "non-plan" prices. However, Sheng Hong seems to be totally wrong in his assumption that by means of this "deal" one can guarantee successful transition to market pricing. First, it was only the party-state which, using its political authority could compel the lower units to pay the price difference to the upper units. Second, while doing this, the party-state also designed the agreement conditions on the size of this payment, thus defining what I have called above the "plan-market frontier". The process of this design was, as already shown, absolutely non-transparent (contrary to what Sheng Hong called for) and the agreed size of the payment varied greatly in sectors and regions. Obviously, all parties of such agreements were eager to use and even to maximize their "informal potential" while bargaining for the "optimal" payment size, rather than to abide to the rules of market freedom, openness and transparency. Functional logic of the units' "politically rational behavior" did not change. Hence, the party-state "setting" or, in the words of Csanadi, the "net" reproduced itself, but not as a separate and shrinking "plan space" side by side to the growing "space of market", but as a key systemic designer of the rules of the game. This time these rules included both plan and market but with an uneven and non-transparent ratio which was again at the disposal of the party-state and was used to preserve the whole edifice of the system.

In my judgment, the Chinese "double-track" pricing model was such a symbiosis of "plan" and "market", which hardly yielded to central management and simply couldn't yield to any targeted dismantle, either in the name of "plan", or in the name of "market".

What happened to the "double-track" price model in China between the Tiananmen crackdown of 1989 and Deng Xiaoping's "southern tour" of 1992, according to my knowledge, has been properly described neither in Chinese nor in foreign literature. The official division of the economic reform in China into periods declares that by 1992 the "double-track" model in price-setting had seized to exist while "tracks" merged. But how did they merge? Although most part of the subsequent Chinese literature on the subject proceeds from the assumption that that "market track" eventually prevailed, particular mechanisms and dimensions of this "merger" remain unclear.

Moreover, the assumption itself that "market track prevailed" looks far from convincing. As late as in 2001, a well-known 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. The task to understand the functions of [central and local] authorities in price formation is still ahead of us' (Zhang Guangyuan 2003: 273).

His statement apparently means that the design of the "plan-market frontier" throughout the 1990s was still in the hands of party-state organs.

The "Price Law", adopted in the People's Republic in 1998, was criticized by Chinese experts in particular for being insufficient in clarifying the difference between "the government which sets the prices and the government which administers the price-setting". There remained considerable vagueness in division of the price-setting power between party-state organs and enterprises inherited from the mid-1980s.

So, how did the price "tracks" merge in the early 90s, 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. But the documents of this Session did not give unequivocal answer to the question, on the basis of which "track" – "plan" or "market" –the merger should take place. This was obviously a political compromise. On the one hand, the need to do something with the "double-track" pricing was in the air. On the other hand, after the Tiananmen crackdown the conservative drive was strong and Deng's reformers were on the defensive.

Community of experts was – as it always happens – split. Along with those who favored "market deregulation" and "staunch planners", many sided with the idea of "temporal restoration of administrative price-setting with its gradual deregulation in future". This view clearly called for turning the clock back to the beginning of the 1980s and then once again starting to follow the path already trodden.

Anyway, 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 look very far-reaching. The State Council directives about restoration of united planned prices for rubber, cement, rolled metal and some sorts of mineral fertilizers in reality caused something opposite rather than hoped-for price recentralization, namely they led to further decentralization and fragmentation of the price-setting procedures within different economic sectors and country's regions. For example, in the early spring of 1990 different cement factories in Henan province instead of using what was supposed to be unified cement price for buyers and sellers started shipping their produce at four different prices. Only one and not the biggest cement producer in the county of Pindingshan (平顶山) kept to the unified state price. The rest factories including those with the largest capacity in the city of

Luoyang (洛阳) sold cement at the prices higher by 20% and even more than the imposed state price. Besides, there continued to exist "special prices", sanctioned by provincial authorities for the usage of some local producers (Chenben…1991: 27-30).

The same phenomena could be observed in other sectors and regions where Beijing government attempted to introduce the unified price-setting.

Was the "Double-Track" Price-Setting ever Existent in China?

The "double-track" price model asan internally coherent system with a clear ratio of "plan" and "market" prices for each commodity, enterprise, sector or province, probably, never existed in the People's Republic of China. The volumes of "plan" and "non-plan" sections varied greatly from sector to sector and from region to region, defined by more and more decentralized price-setting power of party-state organs and productive units. The blurred and opaque "symbiosis of plan and market" began to take shape. In the second half of the 1980s at different levels of the party-state and production units there appeared broad and capable groups of interest, inherently connected with this "symbiosis".

However, regarding the decade of the 1980s, the term "double-track price model" looks proper if we want to make a generalization about the Chinese price reform experience.

First, it is understandable methodologically, because the reformers had to proceed from what they called a "plan system" to a "market system", having decided – for the sake of lowering "transition costs" – to use both concurrently, at least for a certain period of time.

Second, I think that the "double-track price model" in Chinese economy in the 1980s should be perceived not only as a certain ratio in the volume of "plan" and "non-plan" prices, but also as a deepening rivalry between central and local party-state authorities and enterprises for more power in defining the "plan-market frontier".

On the whole, Beijing's mission to find optimal solution for administering the "double-track" pricing form the center has proved to be extremely complicated and – eventually – unachievable. An acute socio-political and macro economic crisis at the turn of 1988-1989 was the climax of this futile quest. "Counter reformers" as winners of the political clash in the spring and summer of 1989, decided to dismantle "double-tracking" by recentralizing price-setting in a number of economic sectors. The result has turned out to be quite the opposite. Beijing's line ran into covert resistance and overt sabotage of different "groups of interest", which were closely connected with the already decentralized power of price-setting. Institutionally, these "lobbies" grouped around local party-state authorities. There is nothing unexpected in this outcome since it was party-state organs of regional levels that began concentrating more power to define the "plan-market frontier" after the start of "double-track" price reform and "decentralization".

The next stage of deepening fragmentation and localization of price-setting, which started from 1990 on, was in most cases irregular and spontaneous. It further undermined the central government's ability to administer the "plan-market frontier" in the greater part of Chinese "economic space". By 1993-1994 this process had resulted in the shaping of what I call the "*multiple-track price-setting model*".

"Multiple-Track" Model as a Systemic Framework for the Chinese "Market Transition Trap"

Fragmentation and regionalization of price-setting practices failed to lead to fundamental deregulation ("liberalization") of prices. Assertions of some Chinese experts that "most of the prices are already set free" do not have substantial empirical confirmation. What happened in reality looks like a big multilateral, multilevel and multichannel "transaction" between the central government, local authorities and enterprises regarding "purchase and sale" of "planned rights" and "planned duties" in the price-setting. Local authorities were "buying out" the price-setting rights from the bodies of the central government, while enterprises lobbied to "buy out" such rights from the corresponding superior agencies. Locally based private businesses, which might seem to have been free in price setting but actually depended greatly on the favors from the regional authorities had to play according to the price rules, introduced by the latter.

Of note is that contrary to Sheng Hong's ideal, this "transaction" mostly took shape of a non-transparent and harsh bargain and what evolved at the end of the day was, in fact, the reproduction of the party-state systemic setting.

At the beginning of the most active stage of the "transaction" in the early 1990s the central government was, to some extent, on the defensive, being unable to prevent undesired fragmentation of price-setting practices. However, Beijing apparently had to put up with this, at the same time efficiently concentrating efforts on retaining key positions in such spheres as capital and natural monopolies' price-setting 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 (朱容基) were an attempt to guarantee Beijing's upper hand in these sensitive domains.

Such state of affairs when the central government retains the rights to set the prices of natural monopolies, capital and national currency, while local authorities retain the rights to design the "plan-market frontier", using tremendous variety of bargained "tracks", I suggest calling the "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. – were developing according to the logic of "multiple-tracking" (Chen Siwei 2006: 127-269; Guo Jinlin 2008: 125-247; Li Xin 2007: 25-54, 130-241). It seems to be also true even for some parts of political and administrative spheres.

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 a certain unit is achieved through non-transparent bargaining between this unit and the related level of party-state authorities or between mutually depending units under control and patronage of the related 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 which are tied to the difference between "plan" and "non-plan" prices. In political and administrative spheres 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 the Communist party's political and ideological monopoly.

Economically, since the main source of the rent in China is investment and low labor costs which also produce the vital GDP growth, the final sum of redemption has to allow for the potential ability of the purchaser of the "rights" to generate such growth. If the sum is so big that purchaser goes bankrupt unable to guarantee GDP growth, the upper "seller" may be left without redemption while the ruined unit can bring about unpredictable social complications. The "agreed" sum of redemption paid by the lower units is "privatized" by the upper units. There are various forms of redemption, depending on an economic sector or a region: the difference between officially announced and privately bargained interest rates or stock price, coefficients in price-setting etc.

Such redemption is not one-time payment. In most cases it is a price of a 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. The best illustrations to it seem to periodically activated campaigns against corruption. By means of them the "upper echelons" seek to guarantee the integrity of the decentralized power vertical, provide the growth of their rent base and settle political scores with the opponents.

Supporting frame of the "multiple-track" model is still a political monopoly of the Leninist party-state which penetrates the whole society and guarantees the norms of the politically "rational behavior", reproducing the principles of "soft-budget constraint" in both economic and political fields. In order to be able to do so the party-state firmly and monopolistically controls and regulates the whole complex of national finance – banking and monetary policy, interest and currency rates, taxation, stock market as well as price setting in key sectors. Hence it is the party's power monopoly intertwined with the party's financial monopoly at the central level of the party-state that secures internal cohesion of the whole "multiple-track" edifice and averts the danger of different "tracks" tearing it apart.

The most important *structural characteristic* of the "multiple-track model" is *non-transparent and indissoluble "symbiosis" of "plan" and "market.* The described mechanism of non-transparent bargain under control and with mediation of the party's political and financial monopoly *in each particular case dictates quite clear limits of the "market space" to the "contracting parties".* "Market" here is not a "system" but a "practice" of speculative nature which is used unevenly and – for an external observer – without clear regulations at different "floors" of the party-state which still constitutes the core of the "system".

Coming back shortly to the concept of "incremental reform" and "self-withdrawal" explanation, I tend to think, that the main methodological "drawback" of their adherents lies in the fact that they implicitly separated "plan space" from "market space", while in the "double-track" – "multiple-track" reality these two dimensions were and still are intrinsically intertwined. This "drawback" may be rooted in a widespread perception characteristic of the reformers in the 1990s, according to which "market transition" in late- and post-socialist countries, despite all its visible pitfalls, is still a "linear process" which goes from the "state of plan" to the "state of market" (Frydman, Rapaczynski 1994: 75-77). To my mind, this perception is not necessarily completely erroneous. However, instead of looking for the signs that "market" is on the rise and "plan space" shrinks, it is more important to clarify which parts (institutions, units etc.) of the "plan space" must go through transition first to avoid "double-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" gets stuck in a "transition trap" and what at the beginning may look like "self-withdrawal" turns into "self-disintegration" at the end.

In his classical book "The Socialist System. Political Economy of Communism" Janos Kornai comes to a conclusion that these key "parts" of the system are represented by the Communist party's political and ideological monopoly (Kornai 1995: 408, 426). I believe that the experience of Chinese "transition to market" makes it possible to add another Communist party's monopoly to this list, namely the monopoly over the national financial system. Without dismantling such "party-money" monopolistic edifice, all other "market reforms", like those in the spheres of price-setting, planning, banking, credit, currency, stock market, property – including supposed SOE "privatization" – in effect end up as a further multiplication of the "tracks" within the "multiple-track" systemic setting.

It is quite characteristic that in the financial sector and in macro-economic regulation (certainly, as well as in political and ideological spheres) the Chinese party-state *is least inclined to bargain* with its economic and social counterparts. To be sure, some "bargain space" exists in these spheres either. In political and ideological spheres, however, this "space" is repressively fixed within the Procrustean bed of "rational behavior". In the national finance and macro-economic regulation it 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 the implementation of the so-called "indirect" or "market" methods of regulation which means enhancing interest rates and increasing the flexibility of taxation. Such measures are usually accompanied by government's and experts' assurances that the "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 non-economic pressure". Yet, with the given Chinese "multiple-track" credit and investment mechanisms, interest rates and taxation that are subject to bargain, inflation "overheating" repeats itself. Thus the central financial bodies of the party-state have to stop bargaining and to apply inevitable administrative restrictions of credit, price regulations and other prohibitive non-economic practices (Fan Gang, Zhang Xiaojing 2005: 56-71). In other words, each macro-economic cycle in China starts with bargain and ends up with administrative repression which is also an important mechanism of the system's self-reproduction.

These considerations may shed some more light on the problem of what "path" of market reform in socialist countries is more efficient – "gradualism" or "shock therapy". It is clear that in empirical reality each "path" is defined by particular socio-political and financial conditions of the countries concerned. Still, regardless of initial conditions, final outcome of market transition in socialist countries – arrival at the "state of market" – seems to depend to a decisive degree on the priority and pace of political and financial reforms, i.e. dismantling the "party-money" monopolistic edifice. The longer it remains in place the bigger is the danger for the reformers and for the society on the whole to find themselves in a sort of a "transition trap".

In my view, "multiple-track" model in China also has two important *dynamic characteristics.* The first is *the desire and ability of the party's political and financial monopoly to self-reproduction and, moreover, to self-reproduction on a larger scale.* Huang Yasheng (黄亚生), for example, convincingly proves that throughout the 1990s and later the Chinese party-state reestablished its grip over investment mechanism, marginalizing non-state sources of capital allocation and thus significantly decreasing consumption share in GDP (Huang Yasheng 2008: 73-213).

The second dynamic characteristic of the "multiple-track" model is explained by the fact that *many units of the system constantly try to bypass the limits of their bargained "tracks", thus de-facto breaking out from the "multiple-track" setting.* In such cases the party-state has three options of dealing with the potential "renegades": to end them, to renew the bargain with them, thus bringing them back into the "multiple-track" setting, and to let them free. Empirical evidence shows that those "ended" are usually small and medium-size non-state enterprises, political units, personalities who broke the rules of "rational behavior" and challenging "freethinkers". Setting the "renegades" free happens mostly in half-way and "shadow" manner: the party-state tries to retain at least a "section" of the "renegades" under control and is utterly reluctant to admit openly that some other "sections" of the concerned unit are "freed". In such cases much depends on the unit's informal potential and its "subjective will" to be "free". Some interesting details of how "setting free" in the "double-track" conditions takes place came to light in a discussion about SOE "restructuring", Chinese "MBO" and "state capital flight" initiated by Lan Xianping (朗咸平) in the late 2004 (Cao Jianshan 2005: 1-43; Lang Xianping 2006: 55-99).

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

On the whole, the interrelation between the scale of the system's self-reproduction, units' desire to bypass the limits of their "tracks" and the system's choice of how to deal with the potential "renegades" determines the dynamics of the "multiple-track" setting.

I tend to think that "multiple-track" model hypothesis can provide a conceptual framework to explain structural and dynamic parameters of the Chinese "market transition trap". On the one hand, the "multiple-track" model can be described as a kind of "transitional setting". On the other hand, however, it definitely proves to be a lasting arrangement of the systemic units' interests. Indeed, intertwined and mutually blocking interests of different "groups of lobbyists", some of them might be simultaneously "pro" and "counter market", can dynamically neutralize each other, creating the sense of stagnant "equilibrium of partial reforms" (Pei Minxin) even amid impressive economic growth.

Such model will come to an end only when this growth turns unsustainable (depriving the "track" bargain parties of their rent share) or in the case when still technically sustainable growth – due to the increase in total costs on more aggregated levels – will lead to such a structural damage that it would be lethal for the system. In my view, such an "end" is most likely to take the form of "systemic collapse" matching the conditions of Csanadi's "self-disintegrating pattern".

Conclusion

Having perceptibly influenced sequence and logic of market transition in this country, structure and pace of price reform in China eventually laid the foundations of a lasting arrangement of systemic units' interests which I hypothetically call the "multiple-track model".

The supporting framework of this model is still political and financial monopoly of the ruling Communist party-state.

The key structural characteristic of the "multiple-tracking" is irresoluble "symbiosis" of "plan" and "market", where "plan" is essentially connected with the party-state, constituting the "system", and "market" is a "practice" of speculative nature, used widely but unevenly and with non-transparent regulations on different "floors" of the system. Each "track" is a sum of conditions (in other words, a ratio of "plan" and "market") on which the system's units obtain a "permit" to participate in economic (as well as social) activity. The "track" comes as a result of an overt or covert bargain between the unit and the corresponding organ of the party-state or between mutually depending units under monitoring and control of the party-state. Thus the "plan-market frontier" is still designed by the latter. Monetary terms of such bargain (redemption of "planned rights") are connected to the difference between "plan" and "market" prices and take into account socio-political importance of the related unit as well as its potential to expand resource and rent base. The party-state's political and financial monopoly guarantees the inner coherence of the setting, preventing different "tracks" from tearing it apart.

There are two most important dynamic features of the "multiple-track" model. The first is the desire and ability of the party-state system to self-reproduction on a larger scale. In my view, the concepts of successful "incremental" reform and the system's "self-withdrawal" due to accelerating "absolute shrinkage" lack substantial empirical proofs.

The second dynamic characteristic is, on the one hand, the desire of the units to bypass the "tracks'" limits and, on the other hand, the necessity for the system to constantly choose between the ways to deal with potential "renegades".

Such arrangement of interests may be reasonably looked upon as "transitional" or even "fragile" but so far it has proved to be relatively steady and lasting. It will be doomed when the existing model of economic growth turns unsustainable or if, technically sustainable on the micro level, its total costs will cause irreparable damage to the more aggregated levels of the system. In this case the end of the "multiple-track" model most likely will take the form of "systemic collapse" basically matching the conditions of "self-disintegrating pattern", according to Csanadi's classification.

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