Annu. Rev. Sociol. 1996. 22:401–35

MARKET TRANSITION AND SOCIETAL TRANSFORMATION IN REFORMING STATE SOCIALISM

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KEY WORDS: China, political economy, institutional change, stratification, inequality

ABSTRACT

The far-reaching institutional change and societal transformation occurring in former state-socialist societies have attracted new social science interest in transition economies. This chapter reviews recent research on China, highlighting the theoretical arguments and findings of general interest to social scientists. The paper argues that a paradigm shift is taking place within research on China, from state-centered analysis to a theoretical approach that locates causal forces within a macrosocietal framework. Within a macrosocietal framework, state socialism is viewed as a distinctive institutional arrangement in which society, economy, and the state are integrated through society-wide redistributive arrangements. Forces in economic and political change emanate not only from political actors but from economic and social actors as well. The chapter reviews work in which a macrosocietal approach is used to address stratification, societal transformation, and marketization in reforming Chinese state socialism.

INTRODUCTION

The far-reaching institutional change and societal transformation occurring in former state socialist societies have attracted new social science interest in these societies. In the past, research focused on them was relegated to the domain of area studies and set apart from mainstream social science. The new research on reforming state socialism has sought to move beyond reliance on weak research designs to the application of methods widely employed in modern social sci-

0360-0572/96/0815-0401$08.00

ences (Manion 1994). In place of assertions backed by weak evidence, the new research on societies in transition from state socialism (hereafter transition societies) is more apt to be theory-driven and reliant on systematic data collection. As more of the new scholarship moves beyond the confines of area studies, it has become increasingly comparative and cumulative in its aims. Studies of transition societies now address theoretical issues that trace back to the classical themes of modern social science. Indeed, studies of institutional change and market transition more often appear in disciplinary than in area studies journals. In this sense the market transition literature has led to the integration of research on state socialist societies into the mainstream of modern social science.

We focus on the Chinese transition experience in this article; other reforming state socialist societies include Vietnam, North Korea, and Cuba. Postcommunist societies in Eastern Europe and the former Soviet Union share important similarities with the Chinese case, stemming from their common set of economic and political institutions prior to reform. Although differences in trajectories of transitions across reforming state socialist and postcommunist societies have become more pronounced over time, path dependence is likely to result in structural similarities across transition societies (Nee & Stark 1989, Walder 1995b). All transition societies bear the institutional imprints of a long-lasting experience with state socialism, and they evolve into mixed economies characterized by hybrid organizational and property forms. The aim of this article is to review the recent research on China from the vantage point of the rapidly growing social science literature on transition societies, highlighting mainly the theoretical arguments and findings of general interest to social scientists.

In reviewing the literature we suggest that a paradigm shift is taking place within research on China, from state-centered analysis to a theoretical approach that locates causal forces within a macrosocietal framework. Analysts referring to state socialism as the "communist political order" emphasize the dominant role of the Leninist party, and they focus analytic attention on the state as a causal force. Such a state-centered approach assumes that both society and the economy are subordinated to the political order, as largely passive entities to be acted upon by the state. Although built by Leninist parties after they seized political power, state socialism was comprised of a matrix of society-wide institutions that joined society, the economy, and the state. The economy itself was and is embedded in social institutions shaped by custom, social norms, and local community and family relations. Thus, we argue, the sociological study of transition societies is advanced by research that brings societal institutions and structures more fully into explanations of the causes and effects of transformative change, rather than conferring causal priority to the political domain as does state-centered analysis.

The institutional changes that constitute market transition occur at national, regional, and local levels. At the national level, state policy in the implementing of economic reform has involved critical changes in legal-regulatory arrangements (i.e. decollectivization, fiscal decentralization, enterprise reform, legal and regulatory reform) and changes in the role of political institutions. Because prior economic development and state policy implementation differ widely in a country as large as China (or the former Soviet Union and Eastern Europe), regional variation in the rate and extent of institutional change must also be taken into account. At the local level, institutional change centers on alterations in the structure of social networks and institutional arrangements buttressing economic action. Departures from dependence on vertical connections with government officials are often accompanied by greater reliance on social networks linking economic actors within and across communities. Such changes involve shifts in social norms and customary practices, for example a greater reliance on network recruiting in low-level factory jobs as opposed to government assignment. In short, the emergence of a market society is not limited to the growth of markets conceived narrowly as a medium of economic exchange. Fundamentally, market transition entails a society-wide transformation involving interdependent changes in state policy and regulation, economic institutions (i.e. markets, property rights, and contracts), and informal norms and social networks that embed economic action.

This interdependence of politics, economics, and social organization suggests that the study of transition societies is best pursued as an interdisciplinary research program. Such a program has already crystallized around the new institutionalist paradigm (Cook & Levi 1990, Nee & Ingram 1997), influential in economics (North 1990), political science (Alt & Sheplse 1990), and economic sociology (many chapters in Smelser & Swedberg 1994). The integrating idea of the new institutionalist paradigm is the assumption that actors identify and pursue their interests in opportunity structures shaped by custom, cultural beliefs, social norms and networks, market structures, formal organizations, and the state. The new institutionalist paradigm is well-suited for studies of transition societies because it focuses analytical attention on institutional change, its causes, and effects. Moreover, unlike the neoclassical approach, the new institutionalist paradigm does not assume efficient markets nor governance structures.

A PARADIGM SHIFT FROM STATE-CENTERED TO NEW INSTITUTIONAL ANALYSIS

Although modern state socialism constituted a new type of political order, its pattern of economic integration was a familiar one. Polanyi [1957 (1944)] identified this as redistributive, a structure of social organization in which goods and services are distributed by central direction from lower level production units to a center and back again. Rather than direct exchange between buyer and seller as in a market economy, in a redistributive economy the fiat power of a chief or cadre mediates the exchange. Ancient redistributive societies (i.e. Egypt under the Pharaohs, Babylon, and Mayan civilization) were characterized by nonmarket trade of labor and goods; so too were modern state socialist societies. It is this common set of society-wide redistributive arrangements, not the domination of a single political party or level of economic development, which distinguished state socialism from market societies (Szelenyi 1978).

These redistributive mechanisms linked farm households and urban employees, rural communities and urban neighborhoods, and local and regional governments. Far from standing above society, at the lower and middle levels of the hierarchy agents of the redistributive state were also members of communities and neighborhoods where they engaged in ongoing social relations and were thus subject to the normative constraints of social groups (Parish & Whyte 1978, Madsen 1984, Whyte & Parish 1984, Nee 1989a, 1991a). Accordingly, the communist political order does not stand apart from society but is enmeshed in longstanding social connections that link the state to social groups and organizations. Thus causal forces within state socialism emanate not only from the political order, but also from social and economic arrangements not shaped by the state.

State-centered analysis has had a dominant influence in social science research on China. This reflects a realistic assessment of the importance of the state in a command economy. Although the totalitarian model did not have the same influence on the China field as it did in the study of the Soviet Union (Cohen 1980, Shue 1988), research nonetheless focused on the Communist party and the mechanisms through which it controlled the economy and society (Peck 1975). The party ruled through its control of the state, the imposition of its ideology, and the penetration of party-led mass organizations deep in society (Schurmann 1966, Vogel 1969, Whyte 1974, Walder 1986).

In the period of market reform, state-centered analysis emphasizes the persistent power of the administrative elite under conditions of rapid shift to market coordination. Market reform shifted responsibilities among different kinds of cadres. But although the nature of cadre power has changed, the state controls rural communities as in the past through clientelist politics (Oi 1989, 1990). The shift to markets in this view does not erode the institutional bases of cadre power because patron-client ties to cadres are still necessary for everyday economic transactions. State-centered analyses stress the continuing role of government in controlling both internal migration and job assignments in rural townships and small cities (Zweig 1992). Another theme in state-centered analysis is the role of political institutions in shaping the course of economic reforms in China.

Fiscal decentralization has altered incentives for political actors in local governments: officials seek to promote extensive economic growth as a means to increase government revenues (Wong 1992, Oi 1992). According to the state-centered approach, the strong economic performance of rural industry in the 1980s can be explained by the greater capacity of local governments to monitor township and village firms (Walder 1995b). Economic actors, dissident groups, and social movements are overlooked as causal forces. Instead, each phase of the reform cycle is interpreted through the lens of policy debates and power relations within the central state (Shirk 1993). The limits of reform thus are set by political actors.

At the level of the urban firm, state-centered analysis stresses the persistence of state controls despite deepening market reform. Building on Walder's (1992) analytical framework, Bian (1994) and Logan & Bian (1993) argue that the life chances of workers are still shaped by differential allocation of resources by the state to work units, according to the location of each firm in a segmented hierarchy. On a broader level, Putterman (1992, 1994) argues that the state impedes the shift to a market economy through its continued control over the allocation of agricultural products. The mandated quota sale of grain and other major agricultural products at fixed state prices perpetuates a long-standing policy of subsidizing the wages of urban workers. As in Oi (1989), Putterman's analysis emphasizes the persistent power of the supply bureaucracy, and the slow pace of the shift to reliance on market forces in the agricultural sector.

Thus, explaining societal transformation in the reform era, state-centered analysis places causal priority within the state system, rather than looking to societal sources of institutional change (Lieberthal & Lampton 1992, Walder 1995c). Although it is true that the state is often a decisive causal force in determining the timing and scope of reform measures, the state-centered approach provides a limited causal model of institutional change and societal transformation. Figure 1 schematically presents this implicit causal model. It shows political actors in the state domain as the causal agents of economic development and societal transformation. The economy is an appendage of the state, and economic agents are largely passive objects of manipulation and control by political actors in positions of administrative power. Society lacks autonomous bases from which social actors can resist the political order, or the capacity to impose limits on the power of political actors. The state-centered model outlined in Figure 1 most closely approximates the logic of the totalitarian image of state socialism (Friedrich 1954, Ulam 1963, Friedrich & Brzezinski 1965). However, pluralist and clientelist approaches to communist politics also assume the causal imagery sketched in Figure 1 (Skilling & Griffiths 1971; Walder 1986, 1992, 1994, 1995b; Oi 1989, 1992).

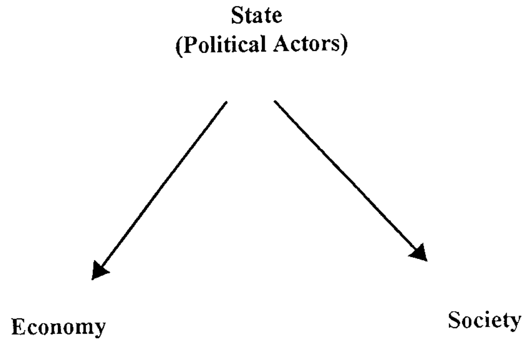

Figure 1 State-centered approach to societal transformation.

Even in unreformed state socialism, overlooking the possibility for autonomous action on the part of societal actors forecloses attention to informal opposition to the terms imposed by the Leninist state. For example, field research in rural China prior to reform documents the extent to which peasants informally resisted the imposition of collectivized agriculture and sought to limit the state's extraction of agricultural surplus by increasing fertility—the more children born, the more grain a household was allowed to retain—and diverting the most productive labor from collective tasks to the household's private plot. This and other social practices that resulted in low productivity and economic stagnation ultimately eroded the state's commitment to collectivized agriculture (Nee 1985, 1986, Nee & Su 1990). Other examples of informal resistance stemming from widespread discontent are detailed by Zhou (1993), who observes that such resistance when mobilized can readily escalate into political challenges to communist rule.

In the era of market transition, bringing society back in is even more crucial. The limits of state-centered analysis are more apparent as a market society emerges in the wake of market reforms, and as horizontal linkages in society provide alternative social organizations for economic action. Rather than viewing society and economy as passive entities to be acted upon by the state and its agents, as in state-centered analysis, the new institutionalist paradigm points to the active role of social and economic actors. By seizing upon opportunities opened up by economic reforms, the cumulative actions of social and economic actors impose decisive constraints on the power of the state, and these actions also work to erode the institutional foundations of redistributive state socialism, preceding and following regime change. Research on market transition finds that, under conditions of increasing market penetration, firms no longer can be viewed as mere appendages of the state (Qian & Xu 1993, Jefferson & Rawski 1994, Naughton 1995). Increasingly economic actors can coordinate their interests through market institutions and social networks bypassing the local party organization (Yan 1995), to some extent even within the state-owned sector of the economy (Su 1994). Furthermore, economic and societal actors may incrementally transform the state itself. Whether in Eastern Europe or China, party bureaucrats have not fared well relative to economic actors who take advantage of new opportunities in emerging capital, production, and labor markets, as professionals, managers, and entrepreneurs. This has created new structural incentives for opportunism and malfeasance, which in turn erode the effectiveness and legitimacy of the state (Nee & Lian 1994). From a societal perspective, actors in an emerging civil society may pressure the state for political changes more directly (Gold 1990b, Perry & Fuller 1991).

A rapidly changing opportunity structure for economic actors in the wake of expanding markets influences society in a number of ways. As ordinary citizens take advantage of opportunities afforded by emerging markets, they in turn incrementally change the economic field through their practical strategies for profit and advancement, by expanding production networks or niches, often beyond the reach of the state. Prior to economic reform, citizens who aspired to become entrepreneurs or merchants risked persecution by local officials. But in the reform economy, those who emerge as entrepreneurs, self-employed professionals, middlemen, merchants, peddlers, and workers in the private sector incrementally alter the stratification order through their practical business strategies and socioeconomic advancement, diminishing thereby the relative power and advantages of the administrative elite—a point argued in market transition theory (Nee 1989b, 1996).

To be sure, the state has an important role in reconstructing a market society, as Polanyi [(1944) 1957] demonstrated in his discussion of the rise of market societies in the West. In the transitions from state socialism, continuous state interventions are critical to the emergence of a market society, from the creation of a new regulatory environment and changes in property rights, to building new market institutions (i.e. equity and commodity exchanges) and macroeconomic monetary and credit policies (Nee 1989a). The new institutionalist paradigm emphasizes the interdependent nature of interactions between the institutional domains of state, society, and economy. However, theories of transition predict that in the course of market transition causal arrows emanating from and between the institutional domains of economy and society are likely to grow in significance, relative to causal arrows emanating from the state/political field (Szelenyi 1988, Nee 1996, Szelenyi & Kostello 1996).

Overlooking societal institutions and forces results in misspecified models of transformative change. Even state-centered analyses must increasingly include nonstate actors and institutions (Naughton 1995, Walder 1995c). However, state-centered analysis draws attention away from explanations that stress state-society interactions and societal forces as the motor of political change in China. What is emphasized instead is institutional change and economic development initiated directly by the state (Walder 1994). In this view changes within the state system, such as increasing elite divisions, are what create the conditions that allow for social movements to mount effective challenges to the political order. We agree in part with this extension of Skocpol's (1979) analysis of the causes of social revolution, but we point to the question left unaddressed in state-centered analysis, which is the ways in which the practical strategies and struggles of economic and social actors cumulatively give rise to institutional change. Moreover, we argue that a focus on departures from the central plan under state socialism masks the extent to which power—defined as control over resources—was not monopolized by central ministries but became dispersed across regional and local administrative centers. The departure from central planning occurred in China long before the market reforms initiated in 1978. Central planning was effectively dismantled during the Great Leap Forward launched by Maoists in 1958 (Schurmann 1966); it was never fully reinstituted in the aftermath of its failure, as evidenced in the high degree of autarchy and self-sufficiency that came to characterize Chinese counties during the late Maoist period (Shue 1988, Lyons 1990, Naughton 1990).

The arguments from market transition theory and state-centered analysis converge at points where the state-centered approach moves towards incorporating a greater role for markets. According to market transition theory, the shift to markets opens up alternative sources of rewards not controlled by the redistributive state, and this shift thereby reduces dependence on the state (Nee 1989b, 1991b). The idea that market reforms also open up alternative mobility channels for political actors and alter relations of dependence within the government hierarchy is formally modeled by Nee & Lian (1994) and was extended by Walder (1994) in his analysis of the decline of Communist power.[1] Both studies concur that the monitoring and sanctioning capacity of the party is weakened as a result of greater opportunism and malfeasance on the part of the party elite. Both conclude that market reforms weaken the party's capacity to monitor and sanction ordinary citizens and that as a result state control declines

[1] Nee & Lian's formal model explains the decline of political commitment within the administrative elite, and the increasing vulnerability to political challenge as a function of the erosion of political legitimacy. Walder (1995a,b) agrees because the model is consistent with his analysis of changing dynamics of principal-agent relations within the state system.

as a function of the shift to markets. This conclusion is consistent with market transition theory's hypothesis of the declining significance of redistributive power. Indeed, a tacit shift to a societal approach from within the state-centered perspective is apparent in Walder's (1995c) specifications of departures from central planning, which can be instigated by pressure for political change from economic actors in the second economy and from the practical strategies of ordinary citizens unable to satisfy their needs within a command economy. Indeed, because China after 1958 did not have much in the way of central planning (Naughton 1990, Qian & Xu 1993), Walder's arguments about departures from central planning are more accurately framed as transitions from state socialism.

THE EMERGENCE OF MARKET INSTITUTIONS

Rural Commercialization and Industrialization

In China markets first emerged in rural settings, where economic reforms led to early successes (Watson 1988). Decollectivization and the shift to the household responsibility system resulted in a 61% increase in productivity from 1978 to 1984, of which 78% can be accounted for by this change in incentive system (McMillan et al 1989). An analysis of rural decollectivization from a societal perspective highlights the importance of nonstate actors in the successful implementation of household-based agriculture. According to JY Lin (1988), it was farmers who provided the impetus to shift successfully out of collective agriculture, not state actors. Lin argues that there was no effective state monitoring of individual performance under collective agriculture, because of the decentralized nature of farm work. This was reflected in the egalitarian structure of work points. But monitoring is necessary in collective production for guaranteeing high work efforts on the part of peasants, who have little incentive to work efficiently if all shirking goes unpunished. By contrast, under the household responsibility system, no monitoring by the state is required, other than to ensure that households deliver the agreed-upon quota of grain to the state. In household production, incentives to work hard are already high because farmers obtain the full marginal returns to their labor (JY Lin 1988). Thus it was incentives at the societal level, rather than shifts in policy per se, which account for increases in agricultural productivity following decollectivization.

A societal perspective on rural reform also emphasizes that the well-being of rural households and communities is increasingly linked to rural markets rather than to the actions of state officials. Change in the social organization of agriculture was accompanied by rapid commercialization, as households sought to shift more of their production from the state sector (e.g. grain) to cash crops for the marketplace. With commercialization came increasing diversification and specialization, and the rapid expansion of rural-urban trade which bypassed the state supply and marketing distribution networks. Market forces became more decisive in shaping economic growth of rural communities, as evidenced in the increased significance of urban proximity and the quality of transportation linking villages to markets in towns and cities (Nee & Su 1990, Johnson 1994). Despite the efforts of local cadres, whether economic growth could be sustained beyond the initial gains accomplished by the shift to household production was determined by regional location and spatial proximity to urban markets and by the availability of low-cost transportation (Skinner 1994).

The most significant transformative change in rural areas, however, came not from the expansion of petty commodity production, but from the rise of market-oriented rural industry (Huang 1990, Parish 1994, Nee & Keister 1995). Byrd & Gelb (1990) show that market-oriented rural industrialization is advantageous both for rural communities as a whole and for the cadres who oversee them. First, salaries of local officials are closely tied to revenues generated from township and village enterprises. Cadres below the township level depend entirely on village enterprises for their salaries. Ironically, in localities where township and village enterprises are well-developed and profitable, local cadres have an incentive not to be promoted to higher, salaried positions in the state hierarchy because this would result in a reduction in their incomes. According to Byrd & Gelb, a close link exists between increasing per capita income in a community and the socially acceptable income for local cadres. Local cadres thus have an incentive to improve the general standard of living in their area through the development of rural industry. In this way, the relationship between local cadres and rural residents is itself becoming less vertical, as local cadres focus efforts on marketizing community production. Oi's (1992) state-centered analysis of the effect of fiscal reform on local government's incentive to promote market-oriented economic development complements the Byrd & Gelb analysis.

But analytical attention to state actors should not come at the expense of ignoring the crucial role in industrialization played by rural families themselves. The shift to the household responsibility system enabled households to allocate labor autonomously. Families did so in a flexible manner, shifting labor power from subsistence agriculture to industry, as nonfarm jobs opened up in township and village enterprises, and back into agriculture when demand slacked off. A flexible allocation of labor was beneficial to growth in rural industries and also meant that industrial growth was never achieved at the expense of agricultural production. Moreover, rural industries relied on the financial backing and entrepreneurial efforts of rural families, since state-owned urban firms were unable to provide them. Rural industrial growth in China could not have been so successful without the support of rural families in the reform environment.

When rural industrial growth was encouraged under Mao, labor and financial extraction were imposed on rural communities. Township and village enterprises responded to political pressures for extensive growth rather than to the profit motive and competition in a marketizing institutional environment. The result was both that agricultural production suffered and that rural industries were unsuccessful (Chang 1993).

Local Market Institutions

Rather than emphasizing the continued importance of vertical ties in the Chinese reform environment, a societal perspective looks to the market institutions emerging from increased horizontal transactions, and to the transformative effects that markets themselves may engender. The early market transition literature focused on the emergence and implications of product markets, as these were the first market institutions to develop. In product markets the terms of exchange between buyer and seller are negotiated rather than fixed by administrative fiat as in classical state socialism. The emergence of product or commodity markets not only encouraged the commercialization of agriculture and rural industrialization (Nee & Su 1990, Naughton 1994), but also stimulated product innovation in state-owned enterprises (Jefferson & Xu 1991). In the market transition literature, the extent of product markets is measured by the number of general and specialized marketplaces in a locality. Parpia (1994) for example shows that the extent of the product market corresponds to changes in dietary practices as peasants shift out of subsistence agriculture and obtain more of their food in local markets. Although an important dimension of marketization, product markets are only one of a number of market structures that make up a market economy.

The recent focus on the emergence of production markets stems from interest in examining the role of firms in creating a market environment (Nee 1996). It builds on White's (1981) theory of markets, which views the market as a social structure rather than as a mere medium of exchange. The neoclassical preoccupation with exchange markets, according to White, led economists to overlook the central feature of market institutions—that they are social structures reproduced through signaling and communication among participants. A production market, then, is a group of firms that view themselves as constituting a market and that are perceived as such by buyers. In White's definition, "markets are tangible cliques of producers watching each other" (1981:543). The production market can be viewed as a local business group in which producers communicate with each other, both to compete and to cooperate in gaining access to resources and securing larger market shares. As production networks, local nonstate firms work together against outside competitors, even while they compete internally for skilled workers, input material, and market share within the locality. Operationalized as the number of nonstate firms—private and collective—in a township, the production market variable specifies the population of firms that create a market environment. For example, if the locality has only one firm, whether large or small, then in effect there is no competition for product buyers, and hence, no production market. However, when there are many firms signaling to each other the prices paid for factor resources (e.g. labor) and products, a market environment is established. The larger the size of the production market, the more intense the competition between firms for resources and market share as well as the greater the probability of cooperation among cliques of producers, as in industrial districts in the Third Italy. In the market transition literature, the production market variable is neither a measure of economic growth nor a measure of economic development. No information is included on the size of the firm or the nature and volume of output and services. For example, the variable does not indicate the percentage of output contributed by industry; in many areas nonstate firms are small private businesses involved in commerce and construction. Economic development is measured instead as the level of per capita industrial and agricultural output, and economic growth is measured by the per capita increase in income.

The extent of the production market has been shown to have a significant effect on income mobility (Nee & Liedka 1995) and on the erosion of local cadre power. As local production markets grow in size, the administrative elite experiences a relative decline in their privilege and power (Nee 1996). This is explained by the effect of marketization in providing alternative mobility channels for economic actors: entrepreneurs in private firms, managers in township and village enterprises, and workers. The greater the extent of the production market, the more the income mobility of economic actors will tend to exceed that of the administrative elite.

Recent scholarship shows that labor markets are beginning to emerge in rural areas. Using national community-level data, Nee & Matthews (1995) model the determinants of labor markets, which they operationalize as the proportion of the village population working outside the village in nonfarm work. In their view, labor markets are an important focal point for studies of transitional societies, since a market for nonagricultural labor has implications for income mobility among rural households. When there is intense demand and competition for labor, as in a labor market, the bargaining power of workers improves and with this so do wages. Their regression results indicate that the extent of the local product and production market predicts the size of the labor market. Product and labor markets are linked because a market for commodities yields a more specialized division of labor, and thus an increase in demand for particular types of laborers. An increase in the size of the local production market means that there is both a growing demand for labor and increased competition for labor among firms, likewise leading to growth in local labor markets. The strength of network ties between relatives in country and in cities is equally crucial to the emergence of a rural labor market, since local firms must often rely upon imported labor from other areas. This finding is consistent with studies of labor migration in other developing societies that point to the importance of social networks in promoting and sustaining extra-local labor migration (Massey 1988).

Where rural labor markets have emerged, getting nonfarm jobs is based more on human capital attributes and household labor supply than on personal ties to the administrative elite (Nee 1996). The greater the extent of the labor market, the higher the returns on human capital (Parish et al 1995, Nee & Matthews 1995). Nee (1996) reports the surprising finding that, in the highly marketized southeastern coastal provinces of China, human capital has a significant negative effect on rural household income. It is difficult to reconcile these contradictory findings. However, the human capital referred to in Nee's study was that of the head of household, who was more likely to be engaged in agricultural than in nonfarm work. As Zhao (1993) points out, although the early reform period gave rise to a reduction in rural-urban inequality, by the mid-1980s agriculture products produced for the state were no longer profitable for farmers because the rural-urban price scissors once again worked to rural disadvantage. Notwithstanding, Nee's (1996) finding of negative returns on human capital for heads of households in rural Guangdong and Fujian remain anomalous. Using 1988 urban survey data, Xie & Hannum (1996) show that returns on human capital do not correspond with the rate of economic growth. Their study, however, operationalized economic growth as change in industrial output and did not distinguish between market and nonmarket sectors of the urban economy. Moreover, neither economic growth nor change in industrial output is an appropriate measure of marketization. More recently, researchers examining 1994 data find that returns on human capital are significantly higher in more marketized Guangzhou than in Shanghai, and they are the highest in the marketized sectors of both these cities (Nee & Cao 1995).

Some studies suggest that labor markets have yet to emerge in urban areas (Davis 1990, Xie & Hannum 1996). However, Groves et al (1994b) point to evidence of emerging labor markets for managers of state-owned firms. According to their analysis, the procedures for selecting new managers are increasingly sensitive to firm performance. Managers can be fired when firms are not performing well, and there is a significant turnover in managers within state-owned firms. When managers are selected in firms that have performed poorly, potential managers must submit detailed production proposals and provide a large security deposit. Large-scale internal migration of rural workers to cities also suggests the initial emergence of urban labor markets for temporary labor. By the mid-1990s nearly a quarter of urban residents in China were recent migrants from other areas, often finding jobs as household help, temporary workers in factories and construction sites, and day laborers. Likewise, the growing number of urban workers, technicians, and professionals who find secondary jobs consulting in state-owned firms and moonlighting in the second economy, or who work in private rather than publicly-owned firms, indicates that labor markets may be on the verge of emergence in many urban areas.

Research on the shift to markets has also sought to measure the extent of regional marketization. The idea is that while local market institutions encompass alternative mobility channels in the local arena, as internal migration grows in scale, regional markets become more important in shaping the life chances of ordinary citizens. Moreover, firms in local production markets not only compete within their locality, they also face increasing competition from distant firms as the regional market environment develops. Cluster analysis, in which provinces were grouped according to level of industrial output by state-owned, collective, and private firms, showed distinct regional differences in the predominance of these ownership types, and therefore in the regional shift to markets (Nee & Liedka 1995).

Although this regional measure of marketization has been criticized for merely reflecting the extent of rural industrialization, this is not the case. The cluster analysis examines the ratio of industrial output from private, collective, and state-owned enterprises. Private and collective firms rely primarily on markets and quasi-markets for their factor resources and distribution of output. Referring to the nation as a whole, Walder (1996:1064) points out that 68% of collective output was rural and 73% of rural output in 1989 derived from collective enterprises. But the statistics Walder cites overlook the considerable regional variation in the ratio of collective to private industrial outputs, relative to state output. In the less marketized inland region, not only is collective industrial output (27.2%) much smaller relative to state-owned output (65.9%) there, but private output (6.9%) is much smaller than private output in the relatively laissez-faire southeastern maritime provinces (19.4%), which in turn is much larger than the relative size of private output (7%) in the corporatist provinces, where collective-ownership forms (60.8%) dominate the industrial economy.

The Nee & Liedka cluster analysis was based on data from 1987 to 1989 and can also be viewed as a measure of the changing structure of property rights at the provincial level. During these years the rate of growth in output by private firms far exceeded that of both collective and state-owned firms. Thus what Walder's statistics also conceal is the dynamic growth of private relative to public ownership forms, and the growth of market-oriented firms (private and collective) relative to state-owned firms. Regional marketization and structure of property rights have significant positive effects on the erosion of relative cadre privilege and power, the rate of income mobility, the narrowing of the gender wage gap, the shift to commercialized agriculture, and the returns to private entrepreneurship (Griffin & Zhao 1993, Nee & Liedka 1995, Nee & Matthews 1995, Parish et al 1995, Nee 1996).

In sum, the market transition literature has specified a variety of local market institutions and has defined and operationalized them in a manner consistent with the sociological literature on markets as opportunity structures. The definitions of local and regional market institutions are conceptually and empirically distinct from the definition of redistributive power. In this way, tests of market transition theory, in which the income earnings of cadre and noncadre households are modeled across variation in the extent of local and regional marketization, are not tautological, as critics have claimed (Rona-Tas 1994, Lin 1995, Xie & Hannum 1996, Walder 1996:1063).

The Changing Structure of Property Rights

Unlike Eastern Europe and the former Soviet Union, China has resisted carrying out a formal program of privatization, and the dominant property form in China remains public ownership. This persistence in the underlying structure of property rights is a distinguishing feature of economic reforms in China, operating as a constraint on the extent of change in other institutional domains. Public ownership of productive assets, including land and buildings, provides a continuing economic base for the administrative elite. Nonetheless, significant changes have taken place in the structure of property rights, through the emergence of hybrid property forms and governance structures, extensive informal privatization of publicly owned assets, and a very high founding rate for private firms.

The downward devolution of public property rights instituted by fiscal reform altered incentives for political actors at the local level (Oi 1992). This institutional change paved the way for the rise of local corporatism, an institutional arrangement between plan and market, which emerged as a hybrid governance structure well-suited for China's partial reform (Oi 1990, 1992, Nee 1992, N Lin 1995). The significance of this institutional form is that local corporatist governments are wedded to community-level development. This orientation reflects a shift away from the role that local governments played as the lowest rung of a national redistributive mechanism rendering local communities dependent on superordinate state and government agencies. Rather than seeking to cultivate vertical ties with higher-level government officials as a means to secure a larger share of the redistributive pie, officials in corporatist arrangements focus their attention on building a coalition at the local level between political and economic actors to promote market-oriented economic development (Qian & Xu 1993, Wilson 1994, Nee & Su 1996).

Local corporatist arrangements are societal institutions rather than state organizations, because they incorporate political and economic actors in a community-owned multidivisional firm (Qian & Xu 1993). As a hybrid institutional form, local corporatism allows for a loose coupling between formal state rules and local adaptations based on the mutual interests of officials, community groups, and enterprise managers. Local corporatist arrangements enjoy a transaction costs advantage over alternative governance structures, in a rapidly changing institutional environment in which private property rights are poorly defined and weakly enforced, and in which state-owned enterprises face strong organizational inertia in their efforts to adapt to a marketizing environment (Nee 1992). By contrast to alternative governance structures, local corporatist arrangements facilitate opportunistic adaptation to a changing environment. Weitzman & Xu (1994) refer to the folk theorem to explain improved economic performance under local corporatist governance structures. In this view, local government, enterprise managers, and social groups cooperate on the basis of trust stemming from social capital accumulated in bounded communities. Frequent social interaction within bounded communities has been widely associated with conditions favorable to the accumulation of social capital (Homans 1974, Coleman 1990, Putnam 1993).

But the most significant source of change in the structure of property rights has come about through hidden privatization, in which rights over state assets are partitioned to open the way for private claims over the distribution of economic surplus, or they are simply stripped away by corrupt public employees. Although asset stripping by corrupt officials is a common form of privatization, it is best understood as a form of rent-seeking behavior widely viewed by ordinary citizens as illegitimate, and by the state as illegal (Krueger 1974). A socially legitimate form of privatization has been labeled informal privatization (Nee & Su 1996). In informal privatization, property rights over public assets are conferred and regulated by social norms. As in squatter's rights, the community recognizes the property rights of individuals based upon customary use and de facto possession. A common institutional means to privatize public assets is through lease arrangements that give long-term rights over economic surplus to the lease-holder. Although the lease agreement does not entitle the lease-holder to formal property rights, in effect this is viewed in the community as equivalent to private rights over property. The extensiveness of informal privatization demonstrates the utility of the new institutionalist paradigm because informal privatization results from the social appropriation of rights over communal assets.

To illustrate these processes, we refer to Christiansen's (1992) study of the informal privatization of agricultural land. Land in rural areas is legally owned by the collective and ultimately by the state. But during decollectivization, households were assigned cropping rights over specified plots of arable land. Although the land was initially assigned with term limits of 15 to 20 years, peasants no longer wishing to pursue agriculture soon began to transfer use-rights of the land to other peasants. According to Christiansen, the transfer of cropping rights is viewed by peasants as a legitimate means to transfer ownership of the land itself, which we interpret as indicating that land has been informally privatized. An aspect of informal privatization stressed by Nee & Su (1996) is that it is vulnerable to challenge, and for this reason those who have acquired informal rights over property have an incentive to maintain the stability of the corporatist network, which is viewed as critical to the continuing recognition of informal property claims.

PARTIAL REFORM IN CHINA'S MARKET TRANSITION

Economists advising the postcommunist governments of Eastern Europe and the Soviet Union argued that a big bang approach to instituting a market economy was critical for success (e.g. Sachs 1989). Rather than piecemeal incremental reform, the plan instead was to follow guidelines derived from textbook economics to dismantle the economic institutions of state socialism and replace them with a full set of market institutions in rapid order. Although in theory this approach was persuasive, in practice the big bang approach failed to realize its objectives, at least in the short run (Stark 1996). In contrast, the Chinese approach did not conform to textbook economics, and instead the timing and sequence of reform measures were shaped by the politics of a Communist elite still in command (Shirk 1993). Chinese reformers emphasized piecemeal incremental change, not by design, but by trial and error, resulting in an open-ended evolutionary process of institutional change (CZ Lin 1989).

The conditions confronting the urban transition in China closely approximate the institutional environments of Eastern Europe and the former Soviet Union. In urban China, state-owned enterprises still dominate the industrial economy. In the highly marketized city of Guangzhou, 30% of jobs are located in the marketized sectors of the municipal economy; the remaining jobs are in the public sectors (Nee & Cao 1995). Although the private economy remains small, a growing second economy flourishes in the interstices of the public sector, opening opportunities for secondary jobs from moonlighting to internal subcontracting. Hence, Chinese cities provide a strategic research site that allows analysts to study the effects of persistent partial reform. Economists like Kornai (1990) argued that partial reform was not likely to result in improved economic performance. But new instititutional analyses based on data from China pinpoint firm- and community-level processes that explain why partial reform in China has been more successful than might have been anticipated.

In the urban setting, reform of state-owned enterprises focused on changing incentives at the firm level by increasing firm autonomy. Groves et al (1994a) report findings, based on longitudinal data from 1980 to 1989, which support the view that partial reforms in state-owned firms have been successful in altering incentives for managers and workers. Managers have improved firm productivity through bonuses and by hiring workers increasingly on a contract basis, rather than on a permanent basis as in the past. One reason for improved productivity is that increased firm autonomy creates a shorter hierarchy between individuals who have useful information about the firm—managers—and individuals who make decisions about firms. Prior to enterprise reform, managers spent much of their time bargaining with superordinate state agencies, using information about the productive capacities of the firm as a bargaining chip. As a result, supervisory agencies often made planning decisions based on distorted firm information. When firms have more autonomy, managers no longer have the same incentive to bargain with and distort information, and, moreover, they are able to make more decisions about firm activities themselves. The fact that they can retain a portion of the profits also gives managers incentives to increase productivity.

Jefferson & Rawski (1994) likewise argue that institutional changes leading to increased managerial autonomy, the contract responsibility system, and dual pricing have altered incentives sufficiently to result in sustained improvements in productivity. The effect of these reforms has been that products are increasingly bought and sold on the market, both among and outside state-owned firms. There is an increased reliance on hard bank loans for investment capital. Retained profits are linked to firm performance, and poor performance is penalized. Based on their research employing data from large-scale surveys of industrial firms, Jefferson & Rawski argue against Walder's (1987) claim that managers are overly responsive to worker pressures to increase bonuses. Rather, the size of bonuses is closely linked with worker productivity. These findings suggest that productivity gains in state-owned enterprises may have passed the threshold where they are likely to be self-sustaining. This optimistic view of industrial reform is shared by Naughton (1995), whose concept of growing out of the plan captures both the incremental nature of partial reform and its successful implementation. However, continuing reports of persistent poor economic performance and high numbers of loss-making firms in the state-sector suggest the need to remain skeptical about overly optimistic assessments of the prospects for successful adaptation to a marketizing economy by large state-owned firms. The industrial heartland of Northeastern China, dominated by state-owned enterprises, is following the path of the state-owned firms in the former Soviet Union. In contrast, the nonstate sector of the industrial economy continues to outperform the state-owned sector by a wide margin.

With the advantage of hindsight, economists have begun to construct explanations for the unexpected success of partial reform in China. Rather than forcing reform to follow a predetermined plan, partial reform in China has absorbed lessons from small successes and failures. Reflecting back on the failure of the big bang approach in Eastern Europe, Murrell (1992a,b) argues that economic institutions are complex and intertwined with one another in a manner that requires gradual change to achieve success in improving economic performance. Knowledge tends to be limited to specific contexts, so that knowledge of particular kinds of institutions cannot be transferred if these institutions are destroyed or radically reformed. Gradual reform, he argues, would have been more appropriate in Eastern Europe, because it allows actors to apply context-specific knowledge of institutions to solve practical problems without destroying the relationships between institutions. When institutions are destroyed in big bang fashion, as in Eastern Europe and the former Soviet Union, a poor job of constructing new institutions is the likely outcome. This conclusion is consistent with Solinger's (1989) research on the persistence of relational contracting among Chinese industrial firms. Long-standing interfirm trading relationships, by providing a basis for trust, smooth the shift to a market environment.

Qian & Xu (1993) develop a novel institutionalist argument to explain the success of partial reform in China. In contrast to the Soviet Union, China's economy has always been an M-form hierarchy rather than a U-form hierarchy. That is, the government is subdivided along regional rather than functional lines. Because regions are relatively autonomous, they have an incentive to increase local revenues, much of which they are allowed to retain. In addition, M-form hierarchies are more dependent on local revenues than the U-form hierarchy. Local areas can also experiment with institutional innovations, and the effects of failures are contained within the area. The effect of fiscal reforms after 1978 was to make regions and localities even more autonomous than before. The M-form hierarchy in China facilitated the rapid growth of the nonstate sector and the emergence of market institutions. The central state's grip over localities was weak prior to reform and even weaker following reform; as a result, institutional innovations and new programs did not have to go through many layers of bureaucracy to secure approval. Moreover, the ease of communication afforded by greater structural decentralization in the Chinese industrial economy provided a key ingredient for successful reform.

THE CONSEQUENCES OF MARKET TRANSITION FOR THE STRATIFICATION ORDER

The Declining Significance of Redistributive Power

Controversy has been generated over claims advanced by market transition theory, which argues that the shift to greater reliance on markets incrementally erodes the relative power and privileges of the administrative elite. In the view of state-centered analysts, in the absence of regime change the Leninist state and its cadres will continue to control the economy and society despite the penetration of market institutions. In their view, there is no intrinsic feature of markets that diminishes the power of officials in reforming state socialism. This is because the administrative elite can readily convert political capital into economic gain, even more so in a marketizing economy than in a nonmarket setting. State-centered analysts predict that, far from incurring an erosion of cadre power, the stratification order is not likely to be fundamentally altered by the shift to markets, and the former administrative elite will remain on top of the stratification order even after a change of regime (Rona-Tas 1994).

The controversy is in part the result of a misreading of market transition theory (Szelenyi & Kostello 1996). Empirical studies of market transition document that party members, cadre households, and cadre-entrepreneurs all have higher incomes and standards of living than do noncadre households (Nee 1989b, 1991b, 1996; Griffin & Zhao 1993; Nee & Liedka 1995). After controlling for human capital and household composition, what multivariate analyses of change in income show is that, in marketized regions of rural China, income returns to administrative positions are not statistically significant and are lower than those for entrepreneurs and nonfarm workers (Nee 1989b, 1996; Parish et al 1995). More importantly, even in the inland region where the income returns to cadre status are positive and significant, the relative size of this advantage is smaller than that obtained by entrepreneurs and many nonfarm workers (Nee 1996).[2] This finding indicates that, even in the less marketized inland region, many households that pursued market-oriented strategies of advancement—

[2]The effect of cadre status was negative and marginally significant in the preliminary test of market transition theory (Nee 1989b). Walder (1996) is correct that this finding was not replicated in analyses of the 1989–1990 survey. The important difference between the two surveys, overlooked by Walder, is that the 1985 survey was conducted in two peri-urban counties near the Special Economic Zone of Xiamen city, then among the most marketized areas of China. As a quasi-experiment, the purpose of the analysis was to test whether net income returns of the administrative elite grew at a lower rate than for ordinary households at the start of reform. The 1989–1990 survey by contrast was a national survey of townships, villages, and households and was much more representative of rural households and communities in China. Despite its nonrandom selection of rural counties, the villages and households in the sample were randomly selected.

small businesses or nonagricultural jobs—were better off than similar cadre households whose income comes from state employment. Hence, a significant negative income coefficient for cadres is not the required criterion of confirmation for market transition theory, as claimed by Walder (1996).

The declining significance of redistributive power hypothesis is confirmed if many economic actors from noncadre background experience a higher rate of income growth than do the administrative elite. This is true even where the redistributive power of cadres is augmented by economic reform, as is the case when cadres benefit from the rapid growth of rural industries—as long as the market power of many economic actors increases at a faster rate. Over time, this still leads to the incremental displacement of the administrative elite from the top income group. This change in the stratification order is reflected in the finding that only 30% of the cadre households in the 1989–1990 sample were in the top income quintile. Moreover, no income advantage was found in any region of China for any of the three variables measuring political capital: former cadre status, former cadre entrepreneurs, and households with cadre relatives (Nee 1996).

Based on their analysis of the Chinese Household Income Project (CHIP) survey of rural households conducted in 1988, Parish & Michelson (1996) report results "at variance with the Nee findings" showing that cadre advantage has increased in marketized regions of rural China relative to noncadre households. They describe their results as "preliminary," and indeed aspects of their model and variable specification are less than satisfactory.[3]

For Example Paris & Michelson also assert that it is necessary to differentiate occupations in the nonfarm worker category. This they do in their logistic analysis reported in their Table 2. However, in the analysis of relative income advantage (Table 3), they collapse all occupational groups—manager, technical worker, clerical worker, entrepreneur, and manual worker—into one group:

[3]Parish & Michelson report results of logistic regression analysis, based on a sample of 27,367 adult income earners, purporting to show cadre advantage in securing administrative positions. They could not have achieved statistically significant results, however, had they not included clerical workers in the "administrator" category (see their Table 2, row 2). Hence the findings they report in the coastal laissez-faire and corporatist regions point not to cadre advantage in securing administrative positions, but instead to possible cadre advantage in securing "run of the mill" clerical jobs.

The declining significance of the positional power hypothesis focuses on the fate of cadres or *ganbu* and not just the top administrators. As a status group, cadres comprised the elite of prereform China, representing the social group Djilas labeled the "new class" and Szelenyi's "redistributors." The ambitious cadre sought to advance through the bureaucracy, securing more power and privileges thereby. Relatively few cadres ever became top administrators; nonetheless cadres held power in the leading groups of local administrations and enjoyed privileges, albeit often small by contemporary standards (Madsen 1984, Oi 1989).

nonfarm laborer. In the nonfarm category they included farmers who listed seasonal off-farm work as a secondary job, biasing downward nonfarm income. Had Parish & Michelson compared the earnings return of cadres with managers, technical workers, and entrepreneurs, and differentiated these groups from manual and service workers, they would have obtained different results. Even if they had compared top administrators with the occupation groups differentiated in the nonfarm category, their results might still have been similar to Nee's findings. Instead they test the declining significance of redistributive power hypothesis by comparing only the top administrators (1.7%) with all nonfarm workers (16.4%). In no society, past or present, have all nonfarm workers earned more than the administrative elite.

According to market transition theory, the causes giving rise to a change in the mechanisms of stratification in reforming and postcommunist societies are linked inextricably to the expansion of market institutions. First, markets open up alternative mobility channels not controlled by the state, and this enables entrepreneurs to achieve greater wealth and power than do the administrative elite. (These entrepreneurs are simply households that started up small businesses after institutional change made self-employment legitimate. Prior to 1978, peasants with such capitalist leanings were likely to come under political attack in village struggle meetings organized by grass-root cadres.) Second, the emergence of labor and product markets enable nonfarm workers, and to a lesser extent farmers, to withdraw their goods and services until they are able to obtain more favorable terms of exchange and conditions of work than those available from the state-controlled economy. (The continued mandatory quota-sale of grain to the state imposed limits on the shift to markets in agriculture.)

Combined, these institutional changes alter the mechanisms determining the distribution of rewards in a manner that renders the relative power and privileges of the administrative elite open to challenges from below. These are not overt challenges as in social movements and political protests, but incremental, through countless acts of economic actors seeking profit and gain in labor and product markets. Such activity is not even perceived by the established elite because it takes place in economic institutions beyond the reach of the state. The theory assumes that the elite continue to derive power and privilege from position, and indeed empirical studies indicate that such power is augmented by marketization (Nee & Lian 1994). But relative to the gains made by many entrepreneurs and direct producers, the advantage of positional power is diminished as a function of the size of markets. Cadre-entrepreneurs gain exceptional windfall profits in the early stages of marketization through their control of public assets. But such advantages decline as markets thicken, and the redistributive power of cadre-entrepreneurs is eroded as the control of capital assets shifts to market coordination and private ownership. This is seen in the positive and significant income returns for cadre entrepreneurs and former cadre entrepreneurs in the 1985 survey, and the nonsignificant effect of cadre status and political capital on the income returns to entrepreneurs by 1989–1990 in rural China.

Another conceptual confusion has been the idea that because empirical tests of market transition theory used data from rural China, it must therefore be a theory bounded by rural society (Rona-Tas 1994, Xie & Hannum 1996), with its small-scale producers and small communities. A theory verified in this context, it is assumed, is not likely to apply to industrial societies, where large-scale complex organizations dominate the economic and political landscape, and the urban populations are more sophisticated and varied. Despite the differences in institutional context between rural and urban societies, market transition theory makes general claims that can be tested across the rural/urban divide and across former state socialist societies.[4]

Tests of market transition arguments in the urban context are at an early stage. Analyses of income returns in Tianjin from 1978 to 1993 report a persistence of cadre power in the redistributive sector and evidence of decline in income returns to party membership in the marketized sectors (Bian & Logan 1996). More recently, Nee & Cao (1995) report findings based on surveys (N = 3899) conducted in Shanghai and Guangzhou in 1994 that show no significant earnings advantage for party members, higher income returns for nonparty bureaucrats and professionals, substantially higher income returns for professionals and self-employed in the marketized sectors of the urban economy, and higher income returns to human capital in the marketized sectors. Whether the sources of structural change were domestic or international made no substantial difference in the emergent urban stratification order. This study provides the strongest confirmation of market transition theory to date. It indicates that the decline of cadre advantage has gone far beyond what Bian & Logan (1996) reported for Tianjin, the heavy industrial port city in North China.

As its analytical starting point, market transition theory points to the importance of change in the dominant mechanism of economic integration in bringing about transformative societal changes. Insofar as the institutional domain of markets has been long associated with the discipline of economics, market

[4]Rona-Tas (1994) does not mention the striking similarity empirical between urban findings reported in his study and those in the original test of market transition theory. Despite the technical sophistication Xie & Hannum's (1996) findings are inconclusive because they use the wrong exogenous variable: change in industrial output. This should be a control variable in tests of market transition theory (Nee 1996: 918–19), for under both Stalin and Mao extensive industrial growth occurred in the absence of markets. The appropriate causal variable to employ in tests of market transition theory is the extent of the shift to reliance on market institutions.

transition theory has been perceived as an economic rather than a sociological approach by its critics (Lin 1995). Yet as Polanyi [1957 (1944)] demonstrated in his pioneering work on the institutional foundation of modern market economies, sociological analyses of markets differ from those of neoclassical theory. Rather than viewing markets as simply medium or sites of exchange, the sociological approach has sought to examine markets as institutional and social structures (White 1981, Granovetter 1985, Swedberg 1994). This is the enduring intellectual legacy of Polanyi's concept of embeddedness. Another distinctive aspect of the sociological approach is to examine market transition as a societal transformation rather than simply a change in the coordinating mechanism of the economy. From the new institutionalist paradigm, the emergence of a market society entails changes at the national, regional, and local levels, from society-wide changes in the rules of the game to the interaction of market penetration with regional variation in the implementation of state policy and local differences in social structure and institutional context. In this view, for example, a history of out-migration prior to the Chinese revolution provides the network basis for a rapid incorporation into the global market economy and for rural-urban migration following market reform. State policy favoring earlier and more extensive market transitions in the southeastern maritime provinces stemmed in large part from reform leaders' recognition of the potential of such network ties to overseas Chinese capital and entrepreneurial talent (Lyons & Nee 1994).

The new institutionalist and public choice literatures have clearly shown that political markets are important in all societies (Buchanan 1968, Alt & Shepsle 1990). Surely overlooking political markets in the transitions from state socialism neglects an important dimension of new institutionalist analysis (Parish & Michelson 1996). But this is not an issue in the market transition literature, where the central state and local corporatist arrangements have been emphasized as important institutions in shaping the emerging market society (Nee 1989a, 1992). The issue instead is that in the absence of economic markets, the administrative elite monopolized power and privilege. In this situation, access to and control of political markets provided the only avenue for advancement. The shift to greater reliance on market institutions—labor, production, commodity and capital markets—opened alternative opportunity structures beyond the political markets controlled by the administrative elite. Insofar as economic markets grow more rapidly than political markets, market transition theory argues that this institutional change induces fundamental changes in the mechanisms of stratification.

The main empirical findings of the market transition literature, as this section has demonstrated, have focused on how institutional change centering on markets as a structure of opportunity is linked causally to transformative change. Although local social structures such as cliques of firms in local production markets, local corporatist arrangements in rural communities, kinship ties to the administrative elite, and the strength of urban network ties have been examined in causal models in the market transition literature, more research is needed to fill out the account of how features of local social structure and institutional contexts combine to both limit and facilitate the emergence of a market society. We agree with Lin (1995) that such careful specification of local social structure and institutional arrangements is likely to lead to improved multivariate models that can account for the enormous variation in modes of market transition at the local level. Why, for example, local corporatist arrangements appear to be dominant in the central maritime provinces Jiangsu and Zhejiang, and to a lesser extent Shandong, may well be accounted for by reference to enduring features of local social structure and prior economic development. Similarly, variation in local corporatist arrangements in these provinces, from corporatist arrangements that build on private enterprise as in the Wenzhou model to stable collective-ownership arrangements in the Sunan model, probably reflects preexisting differences in local institutional contexts and social structure.

No preconceived model of a market economy is assumed as the outcome of market transition (Nee 1989b, 1991b, 1992, 1996). The modern world economy has produced varieties of market economies, from the East Asian model to societal corporatist models in northwestern Europe. We speculate that the emerging postcommunist transition societies will similarly produce a variety of national and regional forms of market economies, which may well include stable patterns of local corporatist accommodations. In any case, mixed economies with various combinations of hybrid market forms are the likely outcome of market transition in reforming state socialism.

The Rise of Entrepreneurship

The rise of private entrepreneurship in China has opened up mobility channels both for entrepreneurs and for their employees, beyond the reach of the socialist state. Prior to market reform, private entrepreneurship, which had been actively suppressed by the state through the 1950s and especially during the Cultural Revolution, survived in rural areas, mainly in the private household economy that coexisted with collectivized agriculture. Peasants sought modest profit from marketing goods produced in their spare time. In cities private entrepreneurship had been all but eradicated by the late Maoist era (Whyte & Parish 1984).

Since 1978, the emergence of an entrepreneurial stratum has been closely intertwined with the expansion of markets and institutional environments favorable to private enterprise (Liu 1992). When local governments intervene through mobilizational methods commonly employed in the Maoist era, even to support market-oriented growth, the uncertainty this causes limits the entry of private entrepreneurs (Nee & Young 1991). By contrast, private entrepreneurs have flourished in southeastern China where local governments have adopted a laissez-faire policy and provided an environment in which credible commitment to market-oriented policies is backed by reliable administrative procedures. Private entrepreneurs are both the main catalyst behind market growth and the main beneficiaries of market penetration. They exploit new opportunities for profit and gain opened up by institutional change (e.g. new policies and laws) stemming from reform measures. Unintended growth in the population of entrepreneurs who seek to profit from producing for demand not met by the public sector exceeded the expectation of reformers (Gold 1990a). Cadre-entrepreneurs comprise a small percentage of the population of entrepreneurs, a proportion that declines as the population of entrepreneurs grows and draws on new groups in society. In the cities, for example, state employees and high school and college graduates increasingly seek jobs in emergent labor markets (*xiahai*) as they come to perceive that far greater opportunities for career advancement can be obtained in the growing market economy. According to market transition theory, the advantage of cadre status for entrepreneurial pursuits diminishes in the course of market transition because thicker markets reduce the strategic value of redistributive control over the movement of goods and services.

Competition between private and semi-private firms and public ownership forms, started early and intensified in the course of market transition. In the early stages the competitive exclusion of private enterprise by administrative elite developing rural collective enterprises imposed limitations on the growth of the private sector. But as markets thicken, the ability to restrict the market activities of entrepreneurs diminishes while the population of private firms attains the critical mass needed to enable direct competition to grow in intensity. The competitive advantage of the private property form is enhanced as informal privatization and joint-venture firms contribute to the legitimacy of private firms in the transition economy. As a result the growing out of the plan is increasingly accounted for by a greater market share of private and semi-private firms, a trend most pronounced in the highly marketized southeastern coastal provinces of Guangdong and Fujian.

The Dynamics of Income Inequality in Transition Economies

Market-driven economic development has long been associated with increasing inequality. That inequality increases in the early stages of capitalist economic development is not disputed in the social science literature on income inequality. Both economic liberals and Marxists concur that income is more equally distributed in agrarian economies and more broadly dispersed as the division of labor increases and as class differentiation grows. The market transition literature, however, has added a twist to the common wisdom about the effect of markets on the structure of inequality. Szelenyi (1978) speculated that if the main mechanism generating new inequalities in state socialism is redistribution, then access to market opportunities may operate as a corrective on inequalities. He developed this insight in a substantive analysis of urban housing in Hungary, where he showed that the administrative elite benefited the most from state subsidized housing. This insight was extended in studies of market transition in China and tested competitively with Kuznet's inverted-U shape hypothesis (Nee 1991b, Nee & Liedka 1995).

On the whole, empirical analyses of income inequality in transition economies provide a surprisingly consistent account. There is evidence consonant with the Szelenyi hypothesis of declining income inequality as markets are introduced to reforming state socialism (World Bank 1985; Nee 1991b, 1996). Most probably, the reduction in income inequality is the combined result of the effect of markets in reducing inequality between direct producers and redistributors, and of increases in state-purchasing price of grain and bonus payments to urban workers. In any case, the decline in income inequality was temporary. As markets thickened and income dispersion grew, especially as a result of differential returns to human capital and rates of economic growth across regions, income inequality increased. Without exception all empirical studies of income inequality in former state socialist societies show that over time markets have generated more inequality (Hsiung & Putterman 1989, Rozelle 1994, Rona-Tas 1994, Bian & Logan 1995, Nee & Liedka 1995). As predicted by the economics and Marxist literature, the effect of markets has been to create new inequalities greater than those under unreformed state socialism.

Studies of income mobility and inequality have produced new insights about the effects of markets, as well as confirmed long-standing beliefs. Progress in this area has derived mainly from better specifications of regional, sectoral, and institutional effects in models of income inequality. Rozelle (1994) analyzed regional income data to examine inequality among counties. He showed that rural industrialization is the principal cause of increasing inequality, and that agriculture is associated with reduced inequality. He reasons that barriers to trade in rural China increased the inequality caused by the shift from agriculture to industry, by limiting access to nonfarm jobs to residents of particular counties. As a result, income inequality within counties remained stable, while interregional inequality grew dramatically.

In another study, Nee & Liedka (1995) analyze data from a national survey of 138 Chinese rural communities and 7950 households. This study documents extensive income mobility from 1978 to 1989–1990, with distinct institutional effects and regional variations. Income mobility is most extensive in localities and regions where local corporatist governments play an active role in assigning nonfarm jobs, where market-driven economic growth occurs, and in more industrialized regions. In localities and regions where agriculture remains the main source of household income, income has stagnated. The findings on the effects of industrialization and economic growth conform to expectations stemming from the development economics literature. However, at the community level, local corporatist arrangements have an equalizing effect on the distribution of rewards. This finding documents the effect of social structure and institutions on constraining markets, which is consistent with the sociological literature (Smelser & Swedberg 1994).

Gender Inequality

As to the effect of market reform on gender inequality, the recent empirical literature reports mixed findings, with some scholarship showing that markets have disproportionately benefited men, and other reports providing a more optimistic account of the effect of markets on the life chances of women. Entwisle et al (1995) argue that rural women are being left behind in the rise of private entrepreneurship. Their study, based on data from eight provinces collected in 1989, shows that the odds of households starting up a private business are greater for families with more male than female labor. Among households who operate family businesses, male family members are also more likely to work in them. By implication, women in entrepreneurial households are relegated to work in subsistence agriculture.

Analyses focusing on the shift from agricultural work to nonfarm employment provide a more optimistic account of the effect of market transition on women. Parish et al (1995) assess the extent to which women are participating in emergent rural labor markets. Their data, drawn from ten rural counties in 1993, show that women are just 10% less likely to obtain nonfarm jobs than men. Moreover, women with nonfarm jobs make about 80% to 90% of male wages. Contributing to their optimism was the finding that women benefited from education, which increases their odds of obtaining nonfarm jobs and increases their prospects for higher wages. The Parish et al study was replicated by Nee & Matthews (1995) using a national rural survey of 7950 households in 69 counties, collected in 1989–1990. Their results confirm that the extent of the local labor market determines opportunities for nonfarm employment for both sexes. But their findings suggest that households obtain nonfarm employment for male family members first, before obtaining it for female family members. Employing regional analysis, Nee & Matthews also show that the gender wage gap narrows, the more extensive the shift to markets and the higher the rate of economic growth. Not only do wages improve for nonfarm workers when demand is high and supply of workers is taut, but the gender wage gap declines. As men begin to travel long distances to seek nonfarm employment, the women left at home derive an indirect benefit by assuming the role of head of household, which confers on them more decision-making power within the household. Women also benefit from the intervention of local corporatist governments. Where local governments play a key role in matching workers to jobs, women are more likely to obtain nonfarm employment.

PROSPECTS FOR SOCIETAL TRANSFORMATION

The Rebirth of Civil Society

The transition to a market economy has implications for societal transformation, going beyond changes in the stratification order. Some scholars argue that the expansion of autonomous bases for economic activities creates an environment in which a civil society can emerge. In this view, as market reforms continue to improve the life chances of citizens and societal autonomy expands, the desire for political change is also likely to find a broader base of expression (Gold 1990b, Perry & Fuller 1991). Wank (1995), however, argues against the view that the rise of a civil society implies that social groups will mobilize for political change. Based on his field research in Xiamen, he finds little evidence to support the view that entrepreneurs allied themselves to student protesters during the 1989 pro-democracy movement. In Xiamen, and presumably elsewhere, private entrepreneurs remain dependent on local officials, and as a result they have little incentive to join with students striving for political reforms.

Others have examined the appropriateness of the concept of civil society in China, a political culture lacking a tradition of individual rights and legal constraints protecting voluntary associations from arbitrary government interventions. In de Bary's (1991, 1995) view, something like a civil society existed in traditional China, in the form of local societies beyond the reach of the state and in associations of scholar-officials. To the extent that a civil society is emerging in China today, de Bary maintains it must be viewed as limited in nature and constrained by the threat of unbridled state power. Unger & Chan's (1995) analysis of the pattern of state intervention in China also reflects a more cautious assessment of the emergence of civil society in China. They suggest instead that China might be thought of as a corporatist society, in which the state assigns the right to represent segments of society to particular organizations. Such corporatism is not a trend of the reform era. Corporatist arrangements were prevalent during the Maoist era; for example, the ACFTU trade union was allowed monopoly representation of state sector workers. However, Chan

& Unger point to a significant difference in the nature of corporatist arrangements between the pre- and postreform eras. Whereas in prereform corporatist arrangements, representative organizations like the ACFTU were more or less mouthpieces for government policy, in the reform era they are increasingly responsive to the needs of their constituents.

The Vulnerability of the Communist Political Order to Erosion by Market Forces

Although a civil society need not accompany market transition, a formal model of dynamic changes in political commitment shows that market reforms alter the principal-agent relations between communist rulers and bureaucrats at the middle and lower levels of the state hierarchy (Nee & Lian 1994). The decline of political commitment among party members and economic bureaucrats is linked to the increasing relative payoff to opportunism and malfeasance in the market context, and to the diminished returns on political commitment to the party organization. Declining commitment in turn increases the cost of monitoring and enforcement by the party, even as its capacity to do so declines with erosion of political commitment among members. The exception to this rule is found in local corporatist communities. There, the monitoring and enforcement capacity of the party is reinforced, rather than weakened, by successful economic development. The model predicts the collapse of the communist political order when market transition fails to give rise to economic growth.

A complementary approach to party commitment is seen in Walder's (1994, 1995c) state-centered analysis of the erosion of the communist political order, which draws attention away from state-society struggle as the motor of political change in reforming state socialism. Instead, Walder argues that processes of economic change initiated by the state have implications for political change. Consequently, analysis of political decline need not take into account the implications of social movements and political protest by ordinary citizens in mounting political challenges to the state (Zhou 1993). Instead, changes within the state hierarchy are what created conditions that allow social movements and political protests to topple the Leninist state. The Nee & Lian (1994) model and Walder's work (1994) support the view that market reforms alter relations of dependence in the government hierarchy, greatly affecting the party's ability to monitor, sanction, and reward its members, and that this in turn reduces its capacity to govern, as both its legitimacy and its monitoring and enforcement capacity decline.

A convergence between state-centered analysis and market transition theory is apparent in recent scholarship (e.g. Walder 1995a). As pointed out earlier, this convergence comes from within the state-centered framework when these analysts bring into their implicit models societal actors and institutions. Because the economic rewards for political position are shallow, as the payoffs to participation in the market economy increasingly surpass the income returns to positional power, the incentive to defect from or not to seek political careers within the party increases. Instead, entering into the market (*xiahai*) becomes the preferred path for the bright and ambitious. In the long run the choices of these individuals, pursuing profit and gain in the market economy, hollow out the Leninist state, not only because talent is missing but because ordinary citizens can choose to ignore the party's exhortations and appeals to revitalizing the faith. At this point, state-centered analysis ceases to be state-centered and slips into a macrosocietal framework of analysis. Rather than assigning causal agency only to the political domain, new social and economic actors must be viewed as playing an increasingly important role in the politics of markets and of societal change.

CONCLUSION

The market transition literature has moved the study of transition societies to the center stage of Western social science. Rather than being viewed as a parochial area studies interest, analyses of the transitions from state socialism increasingly appear in leading disciplinary journals in the social sciences. The influence of this body of research is beginning to disseminate into the mainstream sociological literature (i.e. Breiger 1995, the recent "Market Transition Symposium" in the *American Journal of Sociology*), a process that may generate new theoretical and conceptual breakthroughs. Just as modern social theory grew out of the intellectual response to the rise of capitalism in the West, as reflected in the classical writings of Smith, Marx, Durkheim, Weber, and Polanyi, so the new work on the transitions from state socialism may revitalize social theory and theory-driven empirical research on societal transformation. Since the classical era of modern sociological thought, the conditions for research have improved considerably. The development of modern computing and progress in quantitative methods have made it possible to analyze societal transformation in progress in a manner unimagined by classical theorists.

Social science analysis of market transition is still at an early stage, but the results obtained both in theoretical development and cumulative empirical findings augur well for the future study of transition societies. We sense that a paradigm shift has already taken place, implicitly rather than explicitly, as scholarship has increasingly reached beyond the domain of the political order to encompass the actions of economic and social actors in explanations of institutional change and societal transformation. From the vantage point of a new institutionalist paradigm, the state comprises a formidable causal force. Yet to argue that processes within the state hierarchy are the only causal forces that matter in explaining institutional change is ultimately short-sighted and results in misspecification of causal models. For example, where do labor markets come from? They do not emerge from within the state hierarchy, as state-centered analysis would insist. Their emergence instead is linked to the rise of product and production markets. The emergence of labor markets in reforming state socialism is of fundamental importance in the explanation of changes in the stratification order. The new institutionalist paradigm takes the state fully into account in its causal imagery, but insists that the often unobserved action of economic and social actors in society must also be included in an adequate causal explanation of societal transformation.

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