POSTSOCIALIST INEQUALITIES: THE CAUSES OF CONTINUITY AND DISCONTINUITY

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INTRODUCTION

That change in the coordinating mechanism of an economy causes a change in the structure of social stratification is widely recognized by students of the twentieth century’s experience with state socialism. Following the victories of communist parties in Russia, China and Eastern Europe, state-directed efforts to institute and consolidate centrally planned economies caused predictable changes in the stratification order. Wherever communist parties carried out the same set of institutional changes aimed at sharply diminishing and even eradicating markets and private ownership of productive assets, the stratification order that emerged was remarkably homogenous, despite significant differences in history and culture. The stratification order bore striking similarities with other state socialisms. Djilas’s (1957) “new class” theory claimed applicability across a diverse set of national societies. As targets of state-directed class struggle, not only were capitalists and landowners expropriated of their ownership of the means of production, but the elimination of markets severely constrained regeneration of a new capitalist class. In the absence of markets, entrepreneurs lacked the economic institution essential for private capital accumulation.

In light of the remarkable regularity with which the earlier wave of institutional change brought about corresponding changes in the mechanisms shaping the stratification order, why has there been so much controversy

generated around market transition theory? The theory claims that in the course of the departures from state socialism, the growth of markets and the expansion of private property give rise to multiple bases of power and privilege. This diminishes the political elite’s control over the sources of power and privilege, compelling it instead to compete with market-based power – whether through global market penetration, private entrepreneurship, or domestic labor markets – for the preferred pathway to social mobility. The expected increase in returns to human capital and corresponding decline in the relative advantage of the political elite are explained by reference to self-reinforcing mechanisms intrinsic to markets and state interventions directed at supporting the expansion of a market economy (Nee, 1989, 2000). Just as the elimination of markets curtailed opportunities not controlled by the redistributive elite in state socialism, so the growth of markets – domestic and global – can be expected to give rise to new structures of opportunities in which education and work experience, as opposed to political capital, provide the primary sources of advantage. In light of the effects on stratification of the earlier experience of suppressing markets, this proposition ought not be controversial.

Why has market transition theory stimulated persistent skepticism? Not only has its theoretical logic been challenged as a tautology, but its empirical claims have generated skepticism to the extent that positive findings are often dismissed, while purportedly negative findings gain ready acceptance. In this paper, we identify the type of disagreement the debate has generated, conceptually and empirically. We report a meta-analysis of current findings on the effect of state-crafted market transitions on the post-socialist stratification order. We suggest that the discrepant results reported by scholars can be explained by reference to processes sustaining equilibrium conditions leading to path dependence within the structure of social inequality established under state socialism. Discontinuity stemming from market forces most frequently commences from small beginnings through changes at the margins, which are often difficult to discern in empirical studies, especially in the early stages of transitions from state socialism. By contrast, continuity is more readily apparent since the processes that sustain equilibrium conditions embedded in long-standing formal and informal institutional structures are more resilient than many assume. Not until a tipping point is reached do changes at the margins move the stratification order towards a more decisive shift in the direction of discontinuous transformation. Both endogenous and exogenous factors, often in complex, interactive sequence of events, can trigger a tipping point.

The ongoing transitions from state socialism provide rare natural experiments that allow the social sciences the opportunity to study the nature
of stratification orders as they adapt to institutional change on the scale of the Industrial Revolution in the West. The processes promoting continuity in the stratification order are persistent forces in any period of discontinuous societal change. We confirm continuity of the pre-existing stratification order through an analysis of occupational attainment in urban China at an early stage of far-reaching institutional change using World Bank data, which highlights jobs in the public sector of the urban economy. This finding, however, need not imply that the explanation of discontinuous change is erroneous or thereby disconfirmed in light of evidence supporting continuity. Because change induced by decentralized markets is an emergent property arising from small beginnings, confirmation of discontinuous change is difficult to obtain especially during the early stages of institutional change. Fundamentally, the causes of continuity and discontinuity are intertwined and coexist in mixed or hybrid institutional orders for relatively long periods, producing path dependence in the postsocialist stratification order. This is why evidence supporting continuity and evidence supporting discontinuity are likely to be embedded in the same data set, and the strong confirmation needed to decisively resolve conflicting claims is difficult to attain in empirical tests.

The problem of confirmation in the market transition debate, we maintain, is general to the social sciences. Confirmation is intrinsically difficult because analysts have yet to take into account the view that powerful forces reinforcing continuity can be expected to be coterminous and interact with causal mechanisms giving rise to discontinuous change. A theory explaining discontinuous change must specify the scope conditions – e.g. sectors in the transition economy – in which mechanisms promoting continuity and discontinuity are likely to concentrate. Hence, we also aim to address a general problem confronting the social sciences in explanations of large-scale institutional change.

**WHY MARKET TRANSITION THEORY IS NOT TAUTOLOGICAL**

Critics have charged that market transition theory is a tautology (Rona-Tas, 1994; Walder, 1996). However, if the declining-significance-of-redistributive-power hypothesis were truly tautological, then there would not have been so much debate and interest in the empirical claims advanced by market transition theory’s propositions. A tautology does not require empirical confirmation since it is true by definition.

In state socialism, the privileges and advantages of the political elite were enormous in relative terms, but their privileges were the perquisites of office.
Bureaucrats in state socialism enjoyed their perquisites so long as they were office-holders, but as members of a status group, they could not efficiently convert their political capital into private wealth. The expansion of markets, however, enables the redistributive elite to *monetize* their political capital. Furthermore, diminished state control over the disposition of public assets stemming from the dismantling central planning opens the way for those closest to state power to wrest public resources into private hands through network ties with the political elite. Under the guise of privatization, vast wealth in natural resources was passed from the public coffer to cronies of the new Russian political elite, made up disproportionately of former communist party bureaucrats. Hence, economic marketization and dismantling central planning can plausibly augment, and even exacerbate, the social inequalities that characterized state socialist redistributive regimes (Nee, 1991; Nee & Lian, 1994; Rona-Tas, 1994; Parish & Michelson, 1996; Walder, 1996). Does the apparent anomaly of persistent and even augmented advantage of the political elite lead to the verdict that market transition theory is false? Not necessarily, for if the relative earnings and wealth of entrepreneurs, managers and professionals increase at a more rapid rate than that of the political elite as the market economy expands in scale, then the declining-significance-of-redistributive-power hypothesis is confirmed. Cao and Nee (2000) elaborated a model that takes into account the increased earnings advantage of the political elite based on Rona-Tas's (1994) findings for Hungary, and yet demonstrates the predicted relative decline in power and advantage.

**CAUSAL CHECKLIST, DATA SHIFTING AND FAIR CAUSAL COMPARISON**

The validity of conflicting claims about winners and losers in the transitions from state socialism has been rigorously examined in the “market transition debate.” Though the debate at times appears contentious, it involves what Miller has labeled as Level I disagreement, in which scholars actually agree on broad issues of conceptual framework but argue sharply over competing hypotheses (1987, pp. 200–219). Unlike Level II disagreement in which rival paradigms fight in zero-sum fashion over which approach should prevail, Level I disputes typically are resolved through conceptual clarification and empirical confirmation. Scholars produce “a causal checklist” in which alternative factors are specified by competing hypotheses. By means of a “shifting of data” from different case studies, false causes can be eliminated from the checklist, to arrive at “an adequate description of underlying causes” of the phenomenon to be explained which satisfies the requirement of causal depth (Miller, 1987,
Confirmation is reached through “fair causal comparison” in assessing how rival sets of hypotheses account for the known facts. The crucial question a research program seeks to adjudicate is whether failures stem from the basic falsehood of hypotheses, as compared to rival hypotheses, or to technical or quantitative considerations. Since, as Miller points out, “causes do not typically leave their footprints in . . . neat ways,” to resolve Level I disagreement requires multiple tests of competing hypotheses, which accounts in part for such debates giving rise to a rapid discovery program of research, as in the market transition debate.

Causal Checklist: Causes of Continuity and Discontinuity

To date, the market transition debate has been largely framed as a binary set of opposing claims about whether the shift to market coordination in departures from central planning augments or diminishes the advantages of the political elite, which formerly held monopoly control over the allocation of surplus. This framing of the debate is evident in the interest in empirical results showing the direction and statistical significance of earnings returns to political capital, measured by communist party membership and high rank in the party hierarchy, in tests to confirm or disconfirm market transition theory. The problem with this simple binary approach to testing the theory becomes apparent in reflecting on the path dependent nature of large-scale institutional change. Path dependent societal transformation gives rise to mixed institutional orders in which continuity with the preceding institutional framework is part and parcel of discontinuous change (Nee & Cao, 1999). In local stratification orders, the interests and group identity embedded in elite networks combine to reproduce established patterns of social inequality even in the context of rapid structural change in the coordinating mechanism of the economy (Rona-Tas, 1994; Walder, 1995; Nee, 1996; Parish & Michelson, 1996). Thus, it is entirely possible that the pre-existing pattern of inequality continues to be evident, coexisting with newly emergent patterns of social inequality stemming from market processes.

Because the postsocialist stratification is a hybrid social order, in which opposing tendencies in the mechanisms of stratification combine and interact in complex patterns, a simple binary approach to testing the declining-significance-of-redistributive power hypothesis is likely to yield mixed results. Moreover, any confirmatory test is highly sensitive to the manner in which key variables are operationalized and to model specification. The reason is obvious. Core features of the state socialist redistributive order persist, while discontinuous change is modest in scope in the early stages of transition to a
**market economy.** Elsewhere we provide a detailed discussion of this problem with respect to Parish and Michelson’s confirmatory test (1996), showing just how sensitive results are to model specification and research design (Nee & Cao, 1999, pp. 825–829). Only after a tipping point has been reached will the market-based stratification order as a whole begin to assume the dominant form in the postsocialist stratification order; until then it is subordinate to the preexisting state socialist stratification order.

We think the debate can be better resolved by developing a causal checklist which conceives of distinct but intertwined processes contributing to the formation of the postsocialist stratification order: the causes of continuity and the causes of discontinuity. Viewed in this light, an approach to confirmation that focuses on a binary positive or negative statistical result on the effect of political capital or position on earnings is less than satisfactory. We maintain that confirmatory tests must explicitly build into the research design and model specification the idea that the different causal mechanisms reproducing continuity and giving rise to discontinuity are likely to simultaneously produce conflicting and opposing tendencies within the same hybrid stratification order. In contrast to competing hypotheses, market transition theory specifies the institutional environments within which causal forces promoting continuity and discontinuity concentrate in the transition economy (i.e. Nee, 1989, pp. 667–668; 1992, pp. 4–18; 1996, pp. 911–916).

Models thus need to enable the researcher to account for a complex set of causal processes, some promoting continuity and others discontinuity. For example, research designs tailored for the urban context must specify economic sectors – hybrid/private economy, for-profit state-owned firms, and non-profit public organizations – in order to allow one to examine the effect of different causal processes in the labor market sectors in which they are most likely to concentrate. Causal mechanisms reproducing continuity are likely to be concentrated in the public sectors of the transition economy, while mechanisms giving rise to discontinuity will concentrate in the hybrid/private economy. Clearly, confirmatory tests that fail to build into models careful specifications of sectoral differences will not obtain results that differentiate the causes of continuity and of discontinuity. Nor, as we shall see, will data sets that undersample entrepreneurs and employees in the private economy enable one to study discontinuity in the postsocialist stratification order.

**Continuity**

Continuity in the stratification order, like discontinuity, should not be assumed, but instead needs to be explained by reference to mechanisms that reproduce the stratification order of state socialism in the postsocialist society. The
processes that sustain continuity are powerful to the extent that state socialism sustained a stable institutional order.

We argue that continuity is spontaneously reproduced through self-reinforcing processes of interest and identity rooted in the informal rules of the game under state socialism and long-standing networks of the communist political elite. Despite changes in the formal institutional rules and arrangements stemming from regime change and reform of the economy, the informal rules embedded in long-standing elite social networks comprise the basis of an equilibrium in which interests and identity at the group and individual levels are locked in and difficult to dislodge. Whether in postsocialist societies that have undergone regime change or in reforming state socialism such as China and Vietnam, networks and norms of the state socialist political elite combine to sustain powerful oppositional forces to change in the formal rules of the game. Operating in the shadows of new institutional arrangements, the old state socialist redistributive elite, even when it is deposed from formal power, constitutes a powerful basis of opposition to the workings of free markets (Staniszkis, 1991; Rona-Tas, 1994). Both within the state bureaucracy and extending downward into firms and public organizations, long-standing clientelist ties provide a ready-made mechanism to coordinate interests through collusion and other forms of informal illicit transactions. This is the underpinning of the political markets that Parish and Michelson (1996) pointed to in which cronyism is the by-product of an institutional order that organized the allocation of resources by non-market means.

Numerous anecdotal stories, passed on during field research or reported in newspaper accounts, illustrate how clientelist networks operate in the postsocialist stratification order. These narratives include familiar stories of rent seeking by party officials who routinely accept bribes and detailing the uses of political power to transfer property rights from public to private ownership endemic in transition economies. The underlying analytical point of such narratives emphasizes the importance of network mechanisms in maintaining the power and privileges of the political elite in the postsocialist stratification order.

Discontinuity
The causes of discontinuous change have been outlined in detail by market transition theory. The transition to a market economy from an economy in which markets were suppressed and eradicated by the state necessarily means that market processes that were very weak, if not non-existent, expand as institutionalized forces that shape incentives and social relationships. The growth of a market economy gives rise to improved returns to individual
performance, evidenced in increases in returns to investments in human capital, new opportunity structures that are beyond the reach of the state, and economic mobility through private entrepreneurship and labor market. *All three processes are discontinuous with the core mechanisms of stratification in centrally planned economies, and are the proximate causes of decline in relative power and advantage of political elite.*

Because market transition theory has been controversial, and critics have challenged its causal logic, we will provide in detail an illustration of its causal mechanisms through the device of an analytic narrative. Our story follows the career of Li Guangxiang, who started out as an engineer in a state-owned chemical factory in Hunan province where he finished his day’s work only after a couple of hours of effort, and “spent most of his first year sipping tea and reading newspapers.” He daydreamed about being a real engineer with a challenging job. “I couldn’t stand the thought of another 20 years there,” he told the *Wall Street Journal* (WSJ) correspondent (Wonacott, 2002). Li quit his state-sector job and left for Shenzhen after working only a year at his first job. There he found a job as a beginning engineer paying $240 a month. He shifted through three jobs in quick order until he gained the work experience that enabled him to land a job at a computer-parts plant near Zhuhai, which later was acquired by Flextronics International, a large multi-national. At 30 he is a senior engineer and an assistant manager at the plant, supervising five production lines, with an annual salary of $10,000. Last year, Li encouraged his brother to join him at the Zhuhai plant.

The WSJ correspondent reports that “all over the factories along this stretch of China’s southeastern coast, the same extraordinary scenario is unfolding: workers move into more and more sophisticated jobs” through labor markets that connect China’s inland provinces to the rapidly growing market economy along the southeastern coastal provinces. Li Gongxiang’s pay may not be high by international standards for engineers, but by Chinese standards, $10,000 (U.S.) is many times higher than the annual salary paid to employees in state-owned enterprises and government offices with a comparable stock of human capital. It is also substantially higher than the annual salary of high-ranking party and government officials in the public sector of the transition economy.

China’s still largely untapped work force in the hinterland provides a huge reserve of cheap labor for the emergent market economy concentrated in the coastal provinces. Unskilled labor costs 60 cents an hour in China, compared to $2.50 in Malaysia, $5 in Singapore and $25 in Japan. Skilled labor likewise is very cheap by international standards. Foreign firms and investors expect to benefit from China’s cheap skilled labor force for some time to come. Drawn by the plentiful supply of cheap skilled and unskilled labor, Flextronics
International is starting construction of a $100 million new plant in Shanghai in April 2002. The cheapness of China’s skilled and unskilled labor has led to a boom in high-tech exports from China, which accounted in 2001 for 17.5% of the country’s total export, compared to just 5% in 1985. According to the World Bank, China’s high-technology exports grew at 43% annually from 1985 to 1998, outpacing other East Asian economies, whose growth ranged from 18% to 28% per annum, by a wide margin.

At the same Flextronics plant outside Zhuhai, Wu Liying, a 20-year-old unmarried female migrant worker from rural China, works a four-to-midnight shift on the production line as a machine operator. Ms. Wu earns about the same $60 a month she did when she started three years ago. For unskilled workers, a nearly flat salary is typical in the emerging market economy of the southeastern coastal provinces. According to the WSJ correspondent, “Ms. Wu has no thought of returning to her village in Jiangxi, one of China’s poorest provinces. ‘What would I do back home?’ she asks, sitting in the dormitory room she shares with three other women. At the factory, Ms. Wu has friends and feels in touch with the modern world. At night, crowds gather at the Flextronics recreation center for table tennis, pool and dancing.” For her as “for many, the opportunities in coastal areas favored by foreign investors and bolstered by economic reforms are a step up no matter how low the wages.” Indeed, Ms. Wu’s wages as an unskilled worker, though low by global standards, is higher than the highest paid village-level government official (Matthews & Nee, 2001). Describing the transformation brought about by the penetration of global capitalism in the region near Zhuhai, the correspondent writes, “The odysseys of Mr. Li and Ms. Wu, repeated by countless others, have transformed the cities along the southern coast. Ten years ago, sugarcane fields surrounded Zhuhai. Hong Kong and Taiwanese companies vied to make toys and garments. Today, the focus is consumer electronics, and the city is ablaze in neon signs for companies such as Canon Inc. and Panasonic.”

This narrative highlights the core mechanisms specified by market transition theory to explain discontinuous change: (1) that markets favor direct producers relative to their terms of exchange under state socialism; (2) that markets provide powerful incentives for direct producers evident in higher returns to investments in human capital; and (3) that new opportunity structures stemming from an emergent market economy open up avenues for social mobility beyond the control of the state, diminishing its power in shaping the postsocialist stratification order (Nee, 1989). We see in this narrative just how new market-based opportunity structures in the more marketized southeastern coastal provinces offer direct producers rewards not available in the inland provinces where markets are less developed and in the state socialist sectors of
the transition economy, whether in government bureaus or in state-owned enterprises. Workers secure higher returns to human capital – education and work experience – through expanding labor markets that link China's emergent market economy with global capitalism. We also see in the story a demonstration of the tipping point principle (albeit at the regional level), which we elaborate below.

Tipping Point and the Acceleration of Discontinuous Change

The interplay among the various causal mechanisms reinforcing continuity and generating discontinuous change gives rise to a trajectory of societal transformation where qualitative breaks are often preceded by long periods of incremental change. While similar patterns have been the topics of numerous writings in economics, sociology, and political science, the underlying logic is perhaps best captured and elaborated by Thomas Schelling in what he calls critical-mass models (1978, pp. 91–110). A ready example of these models is that people are much more likely to double-park on a street where there already exist double-parked cars sufficient in number to create a sense of immunity. In essence, Schelling argues that transition from one state of stable equilibrium to another requires an initial departure beyond a certain minimum threshold. The initial departure can be built up by either internal efforts or external shock, although upon its achievement no additional propellant is needed to sustain the movement toward the destination state. Also referred to by many as the tipping point, this minimum threshold is an intrinsic property of the system which, like a watershed, marks both a change in the inherent tendency of movement and a decisive progression into a different terrain of existence.

For our purpose of understanding the postsocialist stratification the critical mass models and tipping point idea are heuristic. If socialist redistribution represents one equilibrium state and market represents another, then market transition necessitates an initial period of painstaking groundwork to accumulate momentum and/or to foster market growth before it evolves into a stage of self-sustained perpetuation. Such counter-conventional groundwork can result from internal causes, e.g. competition among factions, although in many cases it is the political and economic challenges in the global arena that prompt the communist party leadership to launch the reform campaign (Nee & Lian, 1994; Rona-Tas, 1997). In early stages of the market reform, formal redistributive institutions and longstanding clientelist networks centered on the state remain the principal mechanisms of resource allocation. Their impact reaches far beyond the redistributive sector, as economic actors still face a limited set of opportunities in the nascent market economy and are often forced
to submit to, if not collude with, political interests. Transactions that are intended to be coordinated by emerging markets are inevitably embedded in such powerful socialist institutional legacies (Wank, 1995).

As power continues to center on the political domain, so do opportunities. Hence, a market economy in its early emergence does not automatically deprive the old redistributive elite and reduce them to pedestrians. Instead, there exist a variety of possibilities for those with political capital to derive even greater benefits from it. Market, on the other hand, attracts participation mainly from people who have limited career prospects under the redistributive regime (Zhou, Tuma & Moen, 1997). Even within the market sector reward distribution may be distorted by the strong presence of political networks and the state. Only when the market economy reaches a certain scale and degree of maturity will it be able to stand as an independent source of socioeconomic mobility. This can be construed as the tipping point where market-based stratification mechanisms assume momentum and discontinuous change becomes the dominant trend. Continuities will still be found (Rona-Tas, 1994), as long as the state has yet to completely reduce its role to a third-party regulator, but their significance becomes limited (S. Szelenyi, 1998; Cao & Nee, 2000).

The image of a change trajectory punctuated by tipping points does not suggest that change never occurs in an abrupt manner. Logically, a system can depart from its original state at any pace or speed, and it is the size of the departure that determines whether or not it passes the tipping point. However, once we take into account the complexity and the various intertwining components of a social system, it is not surprising that successful transformation tends to be incremental, especially given the huge initial setup costs entailed in remaking economic institutions in post-communist economies (Sachs & Pistor, 1997; North, 1990, p. 95). Radical reform approaches run an even greater risk of failing to accomplish the original purpose (Kornai, 1990). This is partly evidenced in the Russian experience, where advocates of the shock therapy overestimated the determinism of formal institutions and did not fully recognize the resiliency of the informal arrangements buttressing the Soviet socialism. State planning apparatus was dismantled before market mechanisms were ready to take over, and resource allocation remains dominated by non-market means, resulting in the so-called “merchant capitalism” (Burawoy, 1997). A new order of stratification did appear, but it is based as much on the ruin of the Soviet regime as on markets. Thus, “supply and barter networks, access to locally scarce goods, connections with customs officials and local politicians, skill in the military and pleasure-providing arts – these, not education, are the most important forms of capital in the new
Russian market” (Gerber & Hout, 1998, p. 37). In our assessment, although the Russian reform did cause a sudden abruption, the departure was not comprehensive enough to produce a market society instantly. Instead the emergence of a market economy has been more gradual, accelerating after the financial crisis of the late 1990s, and less an immediate outgrowth of the shock therapy approach that relied on formal institutional changes.

China provides a sharp contrast to the big-bang approach to market transition. On the one hand, China’s incremental reform strategy represents a much less drastic measure in eliminating the formal institutional basis of political advantages. As a result, researchers have documented systematic evidence for continuities in the stratification order (e.g. Nee, 1991; Bian & Logan, 1996; Parish & Michelson, 1996; Zhou, Tuma & Moen, 1997; Zhou, 2000). On the other hand, the central government’s responsive yet steady implementation of its reform plan has not only proved effective in promoting economic performance, but also allowed various market elements to develop and mature in tandem. For example, recent studies find that despite the partiality of the Chinese reform, market exchange and networks are on the rise, whereas the significance of social and redistributive ties declines (Guthrie, 1998). Although it is still doubtful that China as a whole has made a decisive progress toward market, we think at least in certain geographic regions, e.g. the southeast coastal provinces, entrepreneurship and market capital have already become the most important determinants of success.

In summary, we suggest that changes in post-socialist stratification order are both complex and nonlinear. Decades of socialist experience created powerful inertial forces that help to reproduce features of the pre-existing structure of inequality. These forces may be highly resilient and tend to co-exist with newly introduced market mechanisms over an extended period of time. Only when a certain tipping point is reached does discontinuous change assume dominance.

**Data Shifting: Meta-Analysis of Confirmatory Tests**

Meta-analysis of empirical studies in the market transition literature in light of the causes of continuity and discontinuity shows highly consistent empirical support for hypotheses predicting change in the mechanisms of stratification stemming from the expansion of economic markets, as shown in Table 1. The data shifting shows near unanimous support for three of the four major hypotheses derived from market transition theory: increasing returns to human capital, economic mobility of private entrepreneurs, and new opportunity structure associated with the growing private sector. In other words, despite
### Table 1. Summary of Empirical Studies Relevant to Market Transition Theory.

<table>
<thead>
<tr>
<th>Study</th>
<th>Nation</th>
<th>Population</th>
<th>Year</th>
<th>Dependent variable</th>
<th>Political capital</th>
<th>Human capital</th>
<th>Entrepreneurs</th>
<th>Private sector</th>
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<tr>
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<td>China</td>
<td>Rural, Fujian Province</td>
<td>1985</td>
<td>Income</td>
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<td>Yes</td>
<td>Yes</td>
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<td>Nee, 1991</td>
<td>China</td>
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<td>1985</td>
<td>Income</td>
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<td>–</td>
<td>Yes</td>
<td>–</td>
</tr>
<tr>
<td>Peng, 1992</td>
<td>China</td>
<td>Urban &amp; rural, selected areas</td>
<td>1986</td>
<td>Income</td>
<td>–</td>
<td>Yes</td>
<td>–</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Income</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
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</tr>
<tr>
<td>Parish, Zhe &amp; Li, 1995</td>
<td>China</td>
<td>Rural, eastern 2/3 of China</td>
<td>1993</td>
<td>Employment</td>
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<td></td>
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<td></td>
<td></td>
<td>Income</td>
<td>Yes</td>
<td>Yes</td>
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<td></td>
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<td></td>
<td></td>
<td>Income</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
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<td>Parish &amp; Michelson, 1996</td>
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<td>Rural, whole nation</td>
<td>1988</td>
<td>Employment</td>
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### Table 1. Continued.

<table>
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<th>Study</th>
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<th>Year</th>
<th>Dependent variable</th>
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<th>Human capital</th>
<th>Entrepreneurs</th>
<th>Private sector</th>
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<td></td>
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<td>Zhou, 2000</td>
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<td></td>
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<td>Keister &amp; Nee, 2001</td>
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<td>Rural, whole nation</td>
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<td>Cao, 2001</td>
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<td>Urban, two southern cities</td>
<td>1994–1995</td>
<td>Promotion</td>
<td>Inconclusive</td>
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<td>Cao forthcoming</td>
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<td>Urban, one southern city</td>
<td>2000</td>
<td>Income</td>
<td>Yes</td>
<td>Yes</td>
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significant differences in the historical context, human capital, entrepreneur-
ship, and the private economy are key to understanding changes in the
stratification order in post-socialist countries. These findings clearly testify to
the profound impact of market forces.

By contrast, existing research provides only mixed confirmation for the
hypothesis that predicts decline in relative earnings advantage for political
capital. Given the rising opportunities for economic actors, as evidenced in the
story about employees in the computer-part plant near Zhuhai, it would seem
only logical that one would find a corresponding relative earnings decline for
political capital. This is also suggested by the high consensus finding of
increased returns to human capital, advantages of private-sector employment,
and high financial returns to private entrepreneurs. How can this apparent
contradiction be accounted for? We think there are two reasons behind it, one
methodological and one substantive.

Methodologically, we observe in several studies a subtle discrepancy
between research design and interpretation of results with regard to market
transition theory’s prediction of a relative decline of the significance of political
capital. The idea of a relative decline requires that the magnitude of political
advantages be evaluated in comparison to the increasing returns to human
capital and private entrepreneurship. The critical test thus lies in the extent to
which cadres’ monopolistic elite status is now being challenged by groups with
market power. By contrast, studies reporting negative findings have focused
mostly on the redistributive elite’s advantages over unskilled workers, a group
that stand out in neither political capital nor market power (e.g. Rona-Tas,
1994; Bian & Logan, 1996; Zhou, 2000). Elsewhere, we discuss our disagree-
ments with Xie and Hannum (1996) and Parish and Michelson (1996) in
research design and model specification (Nee & Cao, 1999; Cao & Nee, 2000).
Still, a healthy skepticism in the scholarly community remains about the
validity of the hypotheses predicting relative decline in the earnings return to
political capital (Bian, forthcoming).

Substantively, as our previous discussion indicates, there exist powerful
inertial forces that continue to reward political capital, especially evident in the
early stages of market transition. These inertial forces and the emerging
markets represent alternative sources of upward mobility in a hybrid mixed
economy. In early phases of the transition when labor markets have yet to
develop and the emerging private economy still faces various bureaucratic
barriers, it is even possible that returns to political capital rise faster than
rewards gained through market power and private property. The studies
reported in our meta-analysis are based on survey data collected in the late
1980s up through the mid-1990s. Hence, most findings for the persistence and
augmentation of political advantage are likely to be accurate reflections of the continuity features of the post-socialist stratification system. Those with political capital and those with market power can both benefit from the market reform, and it is only when market reaches a certain degree of dominance and maturity that the latter overshadow the former in terms of economic advantages.

Overall, our meta-analysis confirms the co-presence of multiple institutional logic and stratification principles. Though plausible, this also raises the issue of causal indeterminacy in two senses. First, if market transition, like all other large-scale social changes, should be construed as a multi-faceted process involving divergent causal forces, then neither its trajectory nor its outcome can be accounted for by a deterministic theory. Second, insofar as different causal forces could produce similar outcomes, it may be impossible to adjudicate rival arguments with empirical evidence. We consider the causal indeterminacy in the first sense to be something that most, if not all, scientific undertakings have to live with. The second, however, in our view, mainly reflects an inadequacy in research design. It can be reduced through careful specification of the scope conditions for different casual forces. For instance, recent studies of income inequality in urban China emphasize the distinction between organizations that remain dependent on the state and relatively autonomous economic sectors (Cao & Nee, 2001). By examining income determination in each sector separately, researchers gain additional leverage that allows them to better sort out the impacts of markets vis-à-vis those of the communist party/state. More specifically, these studies find higher returns to human capital in private/hybrid ownership firms as well as in relatively autonomous public enterprises. In their study of Chinese firms, Opper, Wong, and Hu further report direct evidence that the interaction between markets and private ownership serves as the most significant constraint on party interference in organizational decision making, and that party control appears to be perpetuated by the party committee’s continued involvement in managerial recruitment (2002).

MARKET TRANSITION AND OCCUPATIONAL ATTAINMENT IN URBAN CHINA

In the rest of this paper we examine patterns of occupational attainment in reforming urban China. The aim of this analysis is to demonstrate our point that continuity, rather than discontinuity, is the central tendency during the earlier stages of rapid institutional change. By contrast, discontinuity is difficult to discern because the relevant changes occur at the margins of a stratification
order and are hard to pinpoint, especially in a study of occupational attainment, which is less sensitive than income to changing mechanisms of stratification.

**Data and Dependent Variable**

The data we use were collected in 1995 by a World Bank study titled Chinese Household Income Project (CHIP hereafter) (Khan & Riskin, 1998). This study consisted of a rural survey and an urban survey. Our analysis employs data from the urban survey. The original sample includes 6,931 urban households randomly selected through a stratified sampling scheme from 69 counties and municipalities in 11 of China’s 30 provinces. Information on employment, income, and other demographic characteristics was collected for all 21,698 household members. After excluding people outside the labor force and those with missing values, we obtain a sample of 11,470 workers.

This World Bank survey of urban households appears to have systematically under-sampled self-employed entrepreneurs and also employees who had jobs in the private/hybrid sector of the economy. Private entrepreneurs accounted for only 1.7% of the entire CHIP sample (Table 2). All together only 4% of the

**Table 2.** Definition and Frequency Distribution of the Dependent Variable.

<table>
<thead>
<tr>
<th>Occupational Status</th>
<th>Definition</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government/Party Cadres</td>
<td>Cadres in govt., party, &amp; mass org.</td>
<td>329</td>
</tr>
<tr>
<td></td>
<td>Ranked ke or higher</td>
<td>(2.87%)</td>
</tr>
<tr>
<td>Administrators</td>
<td>Directors in non-profit organizations</td>
<td>259</td>
</tr>
<tr>
<td></td>
<td>Ranked ke or higher</td>
<td>(2.26%)</td>
</tr>
<tr>
<td>Managers</td>
<td>Managers in public &amp; private firms</td>
<td>391</td>
</tr>
<tr>
<td></td>
<td>Ranked ke or higher if in public firms</td>
<td>(3.41%)</td>
</tr>
<tr>
<td>Professionals</td>
<td>Professionals &amp; technical workers</td>
<td>1,259</td>
</tr>
<tr>
<td></td>
<td>With mid- to senior professional rank</td>
<td>(10.98%)</td>
</tr>
<tr>
<td>Entrepreneurs</td>
<td>Owners &amp; co-owners of private businesses</td>
<td>190</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.66%)</td>
</tr>
<tr>
<td>Ordinary White-collar Workers</td>
<td>All other administrative/managerial, professional/technical, &amp; office workers</td>
<td>5,058</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(35.38%)</td>
</tr>
<tr>
<td>Manual Workers</td>
<td>All manual workers, including both skilled &amp; unskilled</td>
<td>4,984</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(43.47%)</td>
</tr>
<tr>
<td>Total</td>
<td>All sampled individuals that were employed or self-employed in 1995</td>
<td>11,470</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(100%)</td>
</tr>
</tbody>
</table>
CHIP 1995 sample were employed in the private/hybrid sector, compared to the state's own tally of 14.8% for urban China in 1995 (State Statistical Bureau of China, 1996, Table 4-1). Ninety-six percent of the CHIP sample were employed in state-owned or collective-owned organizations. Twenty-five percent of the sample reported that they were members of the communist party, which reveals an over-sampling of those politically loyal to the regime. Consequently, our analysis of occupational attainment should be viewed mainly as a study of urban China's stratification order as it existed at the outset of discontinuous change since respondents who worked in the emergent urban market economy were largely omitted from the sample.

Our dependent variable is the person's current occupation at the time of the survey. We classify all occupations into seven categories (see Table 2). The first, government and party cadres, includes all officials in governmental agencies, party branches, and mass organizations with the administrative rank of ke – the Chinese equivalent of sectional chief – or higher. The second category consists of administrators in nonprofit organizations, also with rank of ke or higher. Public enterprise managers ranked ke or higher and all managers in private firms, joint ventures, and foreign companies are grouped into the third category – managers. Together these three groups constitute the power elite, accounting for 8.5% of our sample. The fourth occupational category is professionals, defined as professional and technical workers with mid-level to senior professional ranks. About 11% of our sample fall into this category. The fifth, entrepreneurs, includes owners and co-owners of private businesses, the majority (52.1%) of which were small self-employment undertakings (getihu). This group is less than 1.7% of the sample. The last two categories include ordinary white-collar workers and manual workers. Their respective percentages are 35.4 and 43.5.

The CHIP data does not provide information about the times when respondents got their current jobs, which poses a problem given our interest in understanding continuity and change. As a means to address this limitation, we use age cohorts to examine the effect of party membership on current occupation. This however must be viewed as a less than satisfactory proxy for a control on time of the shift to current job. Clearly, a longitudinal data set with control on the timing of shift to current job would have provided us with a better handle on the question of continuity and discontinuity. But as a study of occupational attainment after a decade of gradual reform and at the start of more sweeping institutional changes in the urban economy, the CHIP data provides a useful cross-sectional view of the public sector of China's urban economy. If change were instantaneous, and not concentrated at the margins of the urban stratification order, then even a small percentage of private
entrepreneurs and workers in the private/hybrid economy would provide
evidence of discontinuous change.

Between-Occupation Earning Inequality

To better convey a sense of what these occupational categories mean in urban
Chinese societies, we examine income inequality between occupations
throughout the first half of the 1990s. Specifically, we first use the CHIP data
to find out the average annual incomes for each of the seven occupational
categories from 1990 to 1995. We then calculate the ratios between these
averages and the grand mean for the entire sample in the respective year. These
ratios provide a measure of the relative standings of these occupations in terms
of monetary compensation.

Figure 1 shows considerable income inequality among occupations
(although compared to advanced capitalist societies in the West, it is
nonetheless modest). Between 1990 and 1995, average annual incomes for
cadres, administrators, managers, and professionals consistently surpassed the
grand average by 15–40%, making these four groups the elite income-wise. Entrepreneurs also exceeded the average, though by a smaller margin (~ 10%),
while ordinary white-collar workers barely reached it. The largest occupational
group – manual workers – averaged only 85–90% of an equal share.

Figure 1 also reveals some interesting trends over time. The most noticeable
is the growing inequality among these occupational categories during the
five-year period. In particular, the earning gap between manual and non-
manual occupations widened considerably, as average incomes for cadres,
administrators, managers, professionals, and ordinary white-collar workers all
experienced a relative increase at the expense of manual workers. Administrators and managers registered the largest gain, with a magnitude of 12% and
15%, respectively. Ordinary white-collar workers improved from earning 98%
of the overall average to 102%, while manual workers dropped from 90% to
85%. The combined result is a net increase of 9% in the income gap between
these two largest occupational categories. Meanwhile, entrepreneurs also
experienced an 8% decline in earning advantage, although partly due to the
small size of this group in our sample we are unable to rule out the possibility
that the observed decline is simply a result of random sampling errors.

Overall, these trends suggest that occupational attainment in urban China
had become ever more important for individuals’ economic wellbeing. Though
perhaps still modest by international standards, there appeared to be a widening
income gap between manual and non-manual occupations, with occupations
Fig. 1. Relative Annual Income in Urban China, by Occupation.

with direct executive power leading the way in achieving material affluence. As the communist party's promise of an egalitarian utopia continues to fade, landing on the right career track becomes increasingly crucial for the Chinese urbanites.

**Model and Independent Variables**

Given the categorical nature of our dependent variable, we estimate multinomial logistic regression models to examine the effects of various individual attributes and contextual variables. We use manual workers as the reference category for the dependent variable. Logistic regression coefficients thus are estimates of the effects of the independent variables on the log-odds of entering a certain occupational category, as opposed to becoming a manual worker.

We use **CCP membership** as an indicator of political credential, and more importantly, affiliation in a closed but extensive network which monopolizes political power and hence control over resources allocated by the state. **Education** measures the stock of human capital acquired through schooling. In addition to **sex** and **age**, we control for two other demographic characteristics: **ethnic minority** and **birth cohort**. The former is a dummy variable taking the value of 1 if the person is an ethnic minority. This variable is included mainly because the CHIP survey sampled from several provinces with relatively high percentages of ethnic minorities, e.g. Gansu and Yunan, although it is also of substantive interest to gauge the extent of potential ethnic disparity. **Birth cohort** is based on the historical time period during which the person reached adulthood. In particular, those born before 1948 turned 18 before the political turmoil started in 1966; those born between 1948 and 1959 turned 18 during the Cultural Revolution and many of them were sent to countryside; and those born after 1959 turned 18 in the post-Cultural Revolution era.

In addition to these individual characteristics, we include a contextual variable **labor market** to measure the labor market development in each of the 69 counties and municipalities. The value of this variable is calculated as the percentage of sampled individuals who acquired their current jobs via labor market means, instead of via state allocation or job inheritance (**dingti**). We also control for the geographic location by including in our regression models 10 dummy variables for provinces. The province of Gansu is chosen randomly as the omitted category. Descriptive statistics for these independent variables are reported in Table 3.
Table 3. Means and Standard Deviations of the Independent Variables.

<table>
<thead>
<tr>
<th>Variable name</th>
<th>Mean</th>
<th>S.D.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sex (male = 1)</td>
<td>0.53</td>
<td>0.50</td>
</tr>
<tr>
<td>Ethnic Minority</td>
<td>0.04</td>
<td>0.20</td>
</tr>
<tr>
<td>Age</td>
<td>38.41</td>
<td>9.43</td>
</tr>
<tr>
<td>CCP Membership</td>
<td>0.25</td>
<td>0.43</td>
</tr>
<tr>
<td>Education</td>
<td>10.81</td>
<td>2.79</td>
</tr>
<tr>
<td>Labor Market</td>
<td>0.21</td>
<td>0.10</td>
</tr>
<tr>
<td>Cohort</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Born after 1959</td>
<td>0.37</td>
<td>0.48</td>
</tr>
<tr>
<td>Born 1948–1959</td>
<td>0.46</td>
<td>0.50</td>
</tr>
<tr>
<td>Born before 1948</td>
<td>0.17</td>
<td>0.38</td>
</tr>
<tr>
<td>Province</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Provinces (omitted)</td>
<td>(omitted)</td>
<td>(omitted)</td>
</tr>
<tr>
<td>N</td>
<td>11,470</td>
<td></td>
</tr>
</tbody>
</table>

Hypotheses

The most salient aspect of continuity in the postsocialist stratification order in China is the persistent advantage associated with the communist party, an extensive network that offers both strategic connections and legitimacy for its members. Under state socialism, political criteria are systematically enforced in the allocation of career opportunities (Walder, 1985). The communist party/state creates a variety of institutional and organizational devices that constantly monitor and sanction individuals’ political conformity (Schurmann, 1968), and only those deemed trustworthy can be considered for positions with significant power and privilege. Patron-client ties between local party officials and activists also come into play (Walder, 1986). Members of the communist party thus enjoy better chances to enter elite occupations, owing to both their formal political credentials and their access to powerful networks and sponsorship. In the reform era, the political screening process remains largely intact in governmental agencies, while preexisting networks provide the informal basis to sustain political advantage in publicly owned enterprises and nonprofit organizations. Hence, we predict that in contemporary urban China:

Hypothesis 1: CCP membership remains a significant determinant of attaining high occupations in the public sectors of the urban economy.

Another classic feature of mobility under state socialism is the so-called dual elite structure (I. Szelenyi, 1978; Walder, 1995). That is, in addition to the
Postsocialist Inequalities: The Causes of Continuity and Discontinuity

political elite, there exists a second elite group constituted by senior professionals. These two groups of elite are sometimes referred to as the “red” and the “experts.” Both groups enjoy considerable prestige and privileges, although it is only the former that exercises redistributive power. Advancement to the two types of elite status tends to follow distinctive career paths. In particular, party membership is indispensable for recruitment into the political elite. Entry into the professional elite, on the other hand, requires high educational qualification; and though still favored, party membership is no longer a must. This leads us to predict that

**Hypothesis 2a:** CCP membership plays a more dominant role in acquiring cadre, administrative, and managerial positions than in entering professional occupations in the public sectors of the urban economy.

**Hypothesis 2b:** Formal education plays a more dominant role in entering professional occupations than acquiring cadre, administrative, and managerial positions in the urban economy.

Given the small number of the private/hybrid sector employees in our sample (about 4%), we expect discontinuity to be mainly associated with the emergence of a labor market. In contrast to the bureaucratic allocation of labor in a redistributive economy where employment is dictated by the state, a labor market allows mutual choices between potential employers and employees. The development of a labor market thus affords competent workers greater freedom to search for better alternatives, resulting in more meritocratic matching of persons to jobs. This implies a positive interactive effect between labor market growth and human capital factors, e.g. education, on the chance of entering elite occupations. However, we expect this interaction effect to vary with employer type, since organizations stressing efficiency are more likely to incorporate more meritocratic standards into their selection process (Cao, 2001; Cao & Nee, 2001). On the other hand, personnel recruitment in government agencies and state-controlled organizations still prioritizes political credential even when it takes place on the labor market and rarely, if ever, is CCP membership a liability. Hence, we predict that

**Hypothesis 3a:** The development of a labor market does not undermine the advantages to CCP membership in occupational attainment in the public sector of the urban economy.
Hypothesis 3b: The development of a labor market enhances the importance of formal education mainly in acquiring high occupations in for-profit organizations in the urban economy.

A more direct way to discover discontinuity is to examine changes over time. Since our data is cross-sectional and does not allow comparison over time, we instead rely on age/birth cohort to approximate the timing of job acquisition. As explained earlier, our cohort variable distinguishes three groups of people according to the historical time period during which they reached adulthood. Certain differences between the two older cohorts and the youngest one – people who were born after 1959 and thus reached adulthood during the reform era – may constitute evidence for discontinuities in the mobility process. This is certainly not to say that people in the older cohorts could not change occupation in the reform period. But it seems reasonable that for the majority of them occupation had already been determined before the reform began. Other things being equal, we expect that

Hypothesis 4a: There is no difference in the effect of CCP membership between the older cohorts and the youngest one in the public sector of the urban economy.

Hypothesis 4b: Formal education has a greater effect on the attainment of high occupations for the youngest cohort than for the older two in the urban economy.

Results

Table 4 reports logistic regression coefficients from our baseline model. To better illustrate the effects of party membership and education, we also calculate the predicted probabilities of being in each of the seven occupational categories for party members and non-members at various educational levels. All imagined individuals are assumed to be male, non-ethnic minority, 38 years old (sample average), and 0.21 for the labor market variable (sample average). These probabilities are presented in Fig. 2.

The most striking finding here, in our view, is the persistence of political advantage. As predicted by Hypothesis 1, CCP membership remains a major determinant of occupational attainment in urban China, increasing the odds of entering all but one non-manual occupations by at least 58%. These results clearly demonstrate the continuing significance of membership in the party as a network conferring strategic connections and legitimacy for career advancement in formal employment settings in urban China. Such persistent political
Table 4. Multinomial Logistic Regression of Occupational Attainment in Urban China: Baseline Model.

<table>
<thead>
<tr>
<th></th>
<th>Gov./party Cadre</th>
<th>Administrator</th>
<th>Manager</th>
<th>Professional</th>
<th>Entrepreneur</th>
<th>White-collar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-15.35**</td>
<td>-17.64**</td>
<td>-14.01**</td>
<td>-17.66**</td>
<td>-7.54**</td>
<td>-6.05**</td>
</tr>
<tr>
<td>Sex (male = 1)</td>
<td>0.20**</td>
<td>0.04</td>
<td>0.25**</td>
<td>-0.23**</td>
<td>0.04</td>
<td>-0.15**</td>
</tr>
<tr>
<td>Ethnic Minority</td>
<td>-0.45*</td>
<td>-0.38#</td>
<td>-0.22</td>
<td>-0.00</td>
<td>-0.14</td>
<td>0.06</td>
</tr>
<tr>
<td>Age</td>
<td>0.12**</td>
<td>0.16**</td>
<td>0.14**</td>
<td>0.18**</td>
<td>0.04*</td>
<td>0.05**</td>
</tr>
<tr>
<td>CCP Membership</td>
<td>1.70**</td>
<td>1.44**</td>
<td>1.24**</td>
<td>0.46**</td>
<td>0.15</td>
<td>0.55**</td>
</tr>
<tr>
<td>Education</td>
<td>0.69**</td>
<td>0.72**</td>
<td>0.56**</td>
<td>0.84**</td>
<td>0.15**</td>
<td>0.42**</td>
</tr>
<tr>
<td>Labor Market</td>
<td>-1.55</td>
<td>0.42</td>
<td>-0.86</td>
<td>0.97#</td>
<td>4.44**</td>
<td>0.23</td>
</tr>
<tr>
<td>Cohort*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Born 1948–1959</td>
<td>0.12</td>
<td>0.26#</td>
<td>0.22#</td>
<td>0.18*</td>
<td>-0.03</td>
<td>0.05</td>
</tr>
<tr>
<td>Born after 1959</td>
<td>0.10</td>
<td>0.10</td>
<td>0.19</td>
<td>0.30*</td>
<td>-0.01</td>
<td>0.19*</td>
</tr>
<tr>
<td>Provinceb</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#, p < 0.10; *, p < 0.05; **, p < 0.01 (2-tailed tests).

Note: a Reference is those born before 1948.

b Coefficients not presented. Reference category is Gansu Province.
Fig. 2. Predicted Probabilities of Occupational Attainment for Non-Party Members, by Education.

*Note:* Probabilities calculated from Table 4. Assuming male, non-minority, and sample averages for continuous variables.
advantage is rooted deeply in China's socialist regime, and not until the CCP concedes its one-party dictatorship will we begin to observe its decline.

With regard to private entrepreneurship, we find that CCP members are no more likely than others to undertake it. While this is certainly consistent with the absence of political screening in the recruitment into entrepreneurship, it seems more plausible that entrepreneurship has yet to become a most attractive career choice. As we mentioned previously, over half of the entrepreneurs in our sample are in fact self-employed. Entry into self-employment in urban China has been virtually free. Self-employment also tends to entail risk and long and irregular working hours, with no benefits and only slightly above-average income (8% above the mean in 1995). Thus, it should not be surprising if most party members chose to pursue a career in either the state bureaucracy or other organizations.

Our analysis also renders strong support to both Hypotheses 2a and 2b. Specifically, we find that party membership confers much greater advantage in competing for cadre, administrative, and managerial positions than for professional positions. For instance, in Figs 2 and 3, the predicted probability of being a cadre, administrator, or manager for party members is more than twice that for non-party members, and this holds at all educational levels. The size of the effect is the largest for becoming political cadres, weaker for administrators in nonprofit organizations, and the weakest for managers. In contrast, once education exceeds 11 years, party members are in fact less likely than non-party members to become professionals. Meanwhile, although both statistically significant and positive, the effect of education on entering cadre/administrative/managerial occupations is considerably smaller than that on becoming a high professional. This difference can be seen in Figs 2 and 3, where the probability of becoming a professional increases sharply with education, while the increased likelihood of becoming a cadre, administrator, or manager is relatively modest.

Two other findings shown in Table 4 are noteworthy. First, there is a strong positive relationship between the locality's labor market growth and private entrepreneurship. This is hardly surprising since entrepreneurship is almost by definition a job placement via labor market. Labor market growth also appears to be positively associated with entry into professional occupations. We have no plausible explanation for this result except a suspicion that our labor market variable might be correlated with the regional variation in economic industrialization and the geographic distribution of research/educational institutions. Second, we find fairly strong evidence for ethnic discrimination. Ethnic minorities are more likely to work in manual occupations and less likely to acquire administrative positions in government agencies, party branches, and
Note: Probabilities calculated from Table 4, assuming male, non-minority, and sample average for continuous variables.

Figure 3: Predicted Probabilities of Occupational Attainment for Party Members, by Education.
non-profit organizations. While this may reflect the Chinese government’s distrust in ethnic minorities, it could also be partly the outcome of more spontaneous social and political interactions on the grass-root level.

To better examine the impact of labor market, we expand the baseline model by adding in interaction terms between CCP membership, education, and labor market. Results from the expanded model are presented in Table 5.

We find no interactive effect between CCP membership and labor market. Individually or collectively, the six coefficients for the interaction term do not achieve statistical significance by any standard. In other words, there is no evidence that emerging labor markets in the public sector of the economy in urban China undermine the career advantage among party members. This finding is consistent with previous research as well as our Hypothesis 3a. Meanwhile, it should also be noted that though not against CCP members, the emergence of labor market does not appear to benefit them particularly either.

As expected, a labor market does not enhance the chance for more educated people to become either government/party cadres or administrators in nonprofit organizations. However, although the development of a labor market does not increase the size of the manager group (see Table 4 and the negative coefficient for labor market in Table 5), it does improve the chance that people with higher education become managers. This finding lends support to Hypothesis 3b. Our interpretation is that due to their market orientation, firms are more likely than state agencies and other organizations to rely on labor market mechanisms to search for qualified personnel, hence leading to more meritocratic manager recruitment.

Our final model, presented in Table 6, examines potential differences in the patterns of occupational attainment between age/birth cohorts. Overall, this model provides support to Hypothesis 4a and shows little statistical evidence for varying effect of CCP membership across cohorts. The only exception is that compared to their older counterparts, CCP members among those born after 1959 appeared to enjoy a greater edge in obtaining cadre status in governmental agencies and party organizations. This may indeed reflect a change in the party/state’s screening process, but it may have also resulted from the CCP’s aggressive recruitment among eligible youths who have already been admitted into the cadre echelon (Walder, 1995). Unfortunately our cross-sectional data does not allow us to distinguish these two possibilities.

There are considerable differences in the effect of education between cohorts. In particular, we find an increase in the importance of education in obtaining cadre positions, which we attribute to the party/state’s effort to improve its political capacity in a modern era. Among the youngest birth cohort, education also confers greater advantage in becoming professionals and

<table>
<thead>
<tr>
<th></th>
<th>Government Official</th>
<th>Professional</th>
<th>Entrepreneur</th>
<th>White-collar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-15.26**</td>
<td>-13.03**</td>
<td>-17.59**</td>
<td>-8.42**</td>
</tr>
<tr>
<td>Sex (male = 1)</td>
<td>0.20**</td>
<td>0.25**</td>
<td>-0.23**</td>
<td>-0.15**</td>
</tr>
<tr>
<td>Ethnic Minority</td>
<td>-0.38#</td>
<td>-0.22</td>
<td>0.18**</td>
<td>0.07</td>
</tr>
<tr>
<td>Age</td>
<td>0.13**</td>
<td>0.14**</td>
<td>0.18**</td>
<td>0.05**</td>
</tr>
<tr>
<td>CCP Membership</td>
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<td>0.33</td>
<td>-0.37</td>
<td>0.47**</td>
</tr>
<tr>
<td>EDU × Labor Market</td>
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<td>0.57</td>
<td>-0.31</td>
<td>0.02</td>
</tr>
<tr>
<td>EDI × Labor Market</td>
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<td>0.83**</td>
<td>0.02</td>
<td>-0.07</td>
</tr>
<tr>
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<td>-3.65</td>
<td>0.48</td>
<td>7.58**</td>
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<tr>
<td>Cohort (Born 1948–1959)</td>
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<td>0.26#</td>
<td>0.19#</td>
<td>0.19**</td>
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<tr>
<td>Cohort (Born after 1959)</td>
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<td>0.09</td>
<td>0.19</td>
<td>-0.02</td>
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</tbody>
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Note: *p < 0.10; #p < 0.05; **p < 0.01 (2-tailed tests).

Reference is those born before 1948.

Coefficients not presented. Reference category is Gansu Province.

<table>
<thead>
<tr>
<th></th>
<th>Gov./party Cadre</th>
<th>Administrator</th>
<th>Manager</th>
<th>Professional</th>
<th>Entrepreneur</th>
<th>White-collar</th>
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<td>Sex (male = 1)</td>
<td>0.20*</td>
<td>0.03</td>
<td>0.25**</td>
<td>-0.23**</td>
<td>0.04</td>
<td>-0.15**</td>
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<tr>
<td>Ethnic Minority</td>
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<tr>
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<td>0.14**</td>
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<tr>
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<td>1.43**</td>
<td>1.30**</td>
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<td>0.07</td>
<td>0.58**</td>
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<td>0.00</td>
<td>0.10</td>
<td>0.05</td>
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<tr>
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#, p < 0.10; *, p < 0.05; **, p < 0.01 (2-tailed tests).

Note: ^ Reference is those born before 1948.

^ Coefficients not presented. Reference category is Gansu Province.
ordinary white-collar workers. While this is certainly consistent with our Hypothesis 4b, one could also argue for alternative causes such as the recent growth in the population's educational level (Walder, Li & Treiman, 2000), changes in state personnel policy (Zhou, 2000), and so on.

**DISCUSSION AND CONCLUSION**

Overall, our analysis of occupational attainment in urban China shows significant continuity from the pre-reform era but provides little definitive evidence for discontinuous change induced by markets. In particular, we find that party membership remains a major predictor of landing in high occupations and virtually a must-have for securing cadre, administrative, and managerial positions. How do these findings fit with market transition theory as well as previous studies documenting extensive changes in the income distribution?

First, there are reasons to question that the CHIP data could adequately reflect discontinuous changes taking place in urban China. As we mentioned earlier, only 4% of the CHIP sample were employed in the private/hybrid sector, where economic activities and career mobility are the most autonomous from the communist party/state. With 96% of the sample drawn from state-owned and collective-owned organizations, the CHIP data should be regarded as representative only of the public sector. Public sector is surely not static, but for urban China as a whole, apart from the southeastern coastal provinces, changes are still not as dramatic as many observers have thought. For instance, a labor market has grown rapidly in coastal and large metropolitan areas (Matthews, 1998), but in an average Chinese county/city only one in every five public sector employees acquired his/her job via labor market means (Table 3). Hence, without adequate representations of those in the private/hybrid sector, a national sample is likely to miss out changes at the margin. Moreover, that 25% in the CHIP sample were CCP members appears to be another telltale sign suggesting non-random selections even with the public sector. If, as we suspect, the CHIP survey was somehow biased toward people subject to direct political influence, it should not be surprising that analyses based on its data find a greater extent of continuity.

Second, methodological limitations obviously affect our empirical analysis. It is no doubt problematic that we use current occupation as the dependent variable without controlling for the time when the job was acquired. Because the question of continuity and discontinuity turns on the question of whether the job was acquired before or after institutional change, this limitation is in fact quite serious. We attempted to address the problem with the use of age
cohorts, but this does not really provide a substitute for an adequate control of the time when the current job was secured. Our usage of the party membership variable suffers a similar limitation since we do not have control for the date of joining the party. Most people join the party after getting their first job, and many are recruited into the party on their current job (Bian, 1994; Bian, Shu & Logan, 2001). Hence, party membership is limited in its utility as an exogenous variable predicting current job. Moreover, joining the CCP in the 1990s does not mean the same as having joined the party 20 years ago, since today the Party actively recruits private entrepreneurs and others who can be expected to lack the same political commitments as Party members in the past (Nee & Lian, 1994).

A third consideration is that the 1995 CHIP data set was collected at an early stage of urban reforms, which had all but stalled in China until after the suppression of the Tiananmen pro-democracy movement. The major institutional changes accelerating the transition to an urban market economy did not take place until 1994 with the promulgation of China's Company Law and Labor Law, which together opened the way for the corporatization/privatization of for-profit state-owned enterprises and implementation of liberal labor market policies. Both laws were modeled after the company and labor laws of the advanced capitalist countries, especially the United States. Substantial change in urban occupational attainment would need to follow with a substantial lag compared to changes in the determinants of earnings, which as we discussed previously has proven to be a more sensitive barometer of the effects of transition to a market economy.

Clearly, what is needed are new studies of occupational attainment that use data collected since 2000 which control for the timing of job changes and is more representative of the emergent private/hybrid sectors of the transition economy. The next generation of confirmatory studies moreover needs to specify better than previous research jobs that are more dependent on state allocation mechanism and those that are more exposed to market competition, both with respect to labor markets and in the determination of rewards.

Explanations of institutional change need to take into account the causes of continuity and discontinuity arising from complex nonlinear processes driven by different sets of causal mechanisms. Our data shifting confirms that the causes of continuity and discontinuity co-exist in the postsocialist stratification. Overall, the analyses of income inequality confirm that discontinuous change in the stratification order is in progress. Although our analysis of occupational analysis highlights continuity, it does not rule out discontinuous change in the stratification order, especially at the early stages of large-scale institutional change, prior to a tipping point. The analytic narrative of the experiences of
workers in the computer-parts plant near Zhuhai is suggestive of just how important tipping points can be in changing the mechanisms of stratification. Market transition theory is not a theory of radical change; instead it turns on the cumulative causation of decentralized market processes in promoting discontinuous change at the margins of the preexisting stratification order.

NOTES

1. The Russian experience raises the possibility of multiple equilibria in which a rather unique conjunction of historical conditions locks the economy into a state that is neither redistributive nor market. Such a scenario points to the limits of a simple critical-mass model for transition between two states. Elsewhere we discuss in detail the issues of multiple equilibria and path dependent transformation in postsocialist countries (Nee & Cao, 1999).

2. Since middle-range theories only focus on a limited set of parameters among all relevant ones, it is crucial to spell out the interplay between causal processes advocated by seemingly contradictory explanations in order to better understand social reality. This is exactly the main conceptual thrust of this paper.

3. Counties in the Chinese administrative system are essentially small cities. Compared to China’s officially designated cities and municipalities, counties have a lower administrative rank and also tend to be less populous and less industrialized.

4. To ascertain the statistical significance of the changes in relative earning between 1990 and 1995, we conduct t-tests in two ways, one assuming independent samples from the two years and another treating observations from the two years as paired samples. Results from the two sets of t-tests are largely the same. Change in relative earning is not statistically significant for either cadres or professionals.

5. The number of entrepreneurs with income is 160 for 1990 and 190 in 1995. The \( p \)-value for the null hypothesis of no change over time is greater than 42%. Elsewhere we discuss the potential issue of under-representation of entrepreneurs, and private-hybrid sector employees in general.

6. The number of observations from each of the 55 counties/municipalities has a mean of 178 and a minimum of 80.

7. The smallest regression coefficient of 0.46 is for ordinary white-collar occupations. \( \text{Exp.} (0.46) = 1.58 \), or 158%.

8. The differences in the size of the coefficient are statistically significant.

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