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A THEORY OF MARKET TRANSITION:
FROM REDISTRIBUTION TO MARKETS
IN STATE SOCIALISM*

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State socialist redistributive economies are characterized by the allocation and distribution of goods through central planning. This paper develops a theory of market transition which argues that, in reforming socialist economies, the transition from redistributive to market coordination shifts sources of power and privilege to favor direct producers relative to redistributors. The shift improves incentives for direct producers, stimulates the growth of private markets, and provides to entrepreneurs an alternative path for socioeconomic mobility. A set of hypotheses test the market transition theory with household- and village-level data.

Economic reform provides an unusual opportunity to study the transition of a state socialist redistributive economy to a market-like economy. Thus far researchers have focused on issues relating to efficiency and institutional change in analyzing the effects of market reform in state socialism (Kornai 1986; Perry and Wong 1985; Stark 1986). Fewer scholars have studied the impact of market reform on processes of socioeconomic attainment (Szelenyi 1988; Whyte 1986). If the transition from redistribution to the market mechanism involves changes in the mode of allocating and distributing resources, the transition will probably change the stratification order. I propose to show that the shift from hierarchies to markets in a socialist economy changes the determinants of socio-economic attainment and therefore the sources of power and privilege.

Redistributive economies collect and distribute goods through centralized decision making (Polanyi 1957a). Of course, some redistribution occurs in any society, whatever the economy. Past societies with redistributive mechanisms include the primitive hunting tribe, ancient Egypt, Babylonia, and Peru, and the later Roman Empire. In modern market economies, redistribution takes place through the institutions of the welfare state, but in state socialist societies redistribution constitutes the integrative principle of the economy. These mechanisms in state socialism fundamentally involve a vertical relationship between redistributor and producer, in which a multilevel bureaucratic hierarchy allocates resources and redistributes income (Kornai 1989). In these societies, redistribution occurs within subsocietal units such as agricultural collectives, where collective cadres provide central direction in allocating land, labor, and farm implements, distributing income to households. While at the societal level, redistribution integrates the economy through the institutions of central planning, in a market economy, coordination occurs through a horizontal relationship between legally equal buyers and sellers at prices based upon mutual agreement.

The role of markets in China has steadily increased since 1978 and the agricultural sector has undergone the most dramatic shift in reliance on market coordination. In 1980, the state instituted the "household responsibility system" which is in many ways similar to private farming in a market economy, with the household leasing its land and paying the delivery quota as rent. "Under this system the

AMERICAN SOCIOLOGICAL REVIEW

farm household has control over the land it uses and can choose what to produce and how to market its products as is the case in a market economy" (Chow 1987, p. 296). This change in ownership structure returned to peasants incentives in line with their traditional preferences for household production and eliminated the "free rider" dilemma that had plagued collectivist agriculture (Nee 1985; Nee and Su, forthcoming). This shift resulted in dramatic increases in per capita income in the 1980s. From 1978 to 1988, per capita income rose from 134 to 520 yuan; adjusting for inflation, this represented a 192 percent increase in per capita income. (State Statistical Bureau 1986a, p. 582; *People's Daily,* January 3 and 14, 1989). Whereas one-third of rural households had per capita income of less than 100 yuan (4 yuan = $1.00) in 1978, only 1 percent remained at this subsistence level by 1985. On the other end of the income distribution, only 2.5 percent of rural households reported per capita income above 300 yuan in 1978; by 1985, 62 percent reported per capita income of over 300 yuan, with 22 percent reporting over 500 yuan. The correlation between increases in per capita income and the transition from redistributive/collective agriculture to household commodity production is striking (see Table 1).[1] In 1978, 66 percent of household income was derived from the redistributive sector (agricultural collective) and only 27 percent from household production. By 1985, 81 percent of household income came from household commodity production, and only 8 percent from the redistributive/collective sector. The value of market transactions approached half of the total purchase value by 1985 at 70,500 million yuan from 23,500 million yuan in 1980 (Watson 1988). Thus within a span of seven years, China's rural economy experienced a rapid transition from a redistributive/collective economy to a marketlike economy.

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[1] Redistribution takes place both within the collective (through the allocative decisions made by cadres) and through the institution of central planning (state procurement of agricultural products at lower than market prices and the monopolistic sale of manufactured products to peasants at prices substantially higher than world prices). Both aspects of redistribution are still operative after decollectivization (Lardy 1989), but influence a substantially smaller portion of the total household income.

Indeed, the agricultural sector has become a vast "second" economy, far larger in scope than the second economies of Eastern Europe and the Soviet Union. The second economy includes all income-generating activity outside the boundaries of the redistributively coordinated and managed economy including private construction, manufacturing, commerce, handicrafts, repairs, services, and moonlighting for private gain (Stark, forthcoming; Gabor 1979). Due to the rural character of the Chinese second economy, its most common units are the peasant household farm and firm. Though the household enterprises of peasant entrepreneurs are typically very small, in principle they can expand into larger enterprises that hire labor from outside the immediate kin group. Chinese private sector firms have access to official sources of credit and thus have the potential for expansion. Already the rapid growth of household and joint-stock firms in villages and small towns reflects the enormous growth potential of the Chinese second economy.

Recently sociologists have pointed to the unexpected expansion of the informal sector in capitalist economies (Portes and Sassen-Koob 1987); even more surprising has been the rapid growth of the marketlike second economy in state socialist economies. Producers in the second economy of socialist economies conduct their business in a zone relatively autonomous from the state. Like the informal sector or "underground" economy in capitalist societies, the socialist second economy operates in the shadows of the modern and state-regulated economy. The Chinese second economy, however, is both legal and subject to state regulation, though in practice it is largely unregulated and untaxed. Producers in the second economy of socialist economies conduct their business in a zone relatively autonomous from the state. As Stark aptly puts it, "The boundaries of the second economy and the relative proportions of its legal, illegal, and alegal parts are products of contestation between state and society—a continuously changing outcome of a struggle in which society attempts to create and maintain a sphere of activity relatively autonomous from the state" (Stark, forthcoming). A defining feature of the second economy in state socialism is the lack of fully legitimated and well-defined private property rights (which is why the second economy remains a marketlike institution). Just as the welfare state did not lead to socialist

Table 1. Transition From Redistribution to Market for Peasant Households*

	1978	1980	1981	1982	1983	1984	1985
I. Average net income per capita (Rmb)	133.57	191.33	223.44	270.11	309.77	355.77	397.60
Income from redistributive sector	88.53	108.37	116.20	58.09	36.06	35.33	33.37
Income from private cooperatives					0.88	2.85	3.69
Net income from household commodity production	35.79	62.55	84.52	187.55	244.66	285.44	322.53
Other nonborrowing incomes	9.25	20.41	22.72	24.47	28.17	31.71	38.01
II. Proportion (%) (net income as 100)							
Income from redistributive sector	66.3	56.6	52.0	21.5	11.6	10.0	8.4
Income from private cooperatives					0.3	0.8	0.9
Net income from household commodity production	26.8	32.7	37.8	69.4	79.0	80.3	81.1
Other nonborrowing income	6.9	10.7	10.2	9.1	9.1	8.9	9.6

* Source: *Statistical Yearbook of China* (State Statistical Bureau 1986[a], p. 582). Based upon a national sample survey compiled by the State Statistical Bureau.

transition in capitalist economies, so in state socialism, market reform is not likely to produce full-blown market economies. Instead a mixed economy with a dominant state redistributive sector and expanding second economy are the more likely outcome of market reform in state socialism, at least over the next decade. This paper models the effect of the rapid expansion of the second economy on socioeconomic outcomes in state socialism.

SOCIAL INEQUALITIES IN STATE SOCIALISM

Official Marxist views of stratification in state socialism either deny the existence of classes, arguing that in the absence of private ownership of productive property there can be no classes, or conceive of society as comprising only two classes, peasants and workers (Parkin 1971). An early theoretical departure from the official Marxist position was Milovan Djilas's (1957) "new class theory," which built on Trotsky's view of class antagonism between the working class and the new communist bureaucracy. According to Djilas, the bureaucracy constituted a new class because control over the means of production must be interpreted as a form of *de facto* ownership of productive property. Subsequent empirical studies of stratification in Eastern Europe tended to avoid the controversial new class theory by focusing instead on analysis of occupational mobility and the division of labor characteristic of state socialist societies (Hegedus 1977; Ferge 1979). In China, debate over social inequality has revolved around the issues of the persistence of prerevolutionary class labels

and Maoist views on new class formation. Western scholarship on stratification in China has generally sought to establish an empirical baseline (Whyte 1975) and to clarify issues raised by the Chinese debate over stratification (Watson 1984; White 1976; Kraus 1977).

Ivan Szelenyi (1978) formulated a theory of social inequality in state socialism in response to perceived shortcomings of Djilas's thesis. By applying the concept of nonmarket trade (Polanyi 1957b) in a substantive analysis of the redistributive mechanism in state socialism, Szelenyi's theory specifies the underlying processes through which surplus is appropriated in state socialist economies. A feature of state socialism, argues Szelenyi, is that the price of labor is set administratively by the state. Just as labor markets are the central institution of capitalist economies, so the core institution of state socialist economies is the nonmarket trade of labor. When salaries and wages are set administratively and not through transactive market relationships, surplus is directly centralized in the state budget and redistributed according to centrally defined goals and values. Hence the state socialist redistributive mechanism appropriates surplus directly from the immediate producer and creates and structures social inequalities through the processes of its reallocation.

Szelenyi innovatively argues that the redistributive mechanism in state socialism differs fundamentally from that of the capitalist welfare state. In the welfare state, redistribution reduces the inequalities produced in the marketplace (Wilensky 1975). Though the welfare state has a decidedly procapital bias, the pattern of state expenditures has resulted in modest gains for labor (Devine 1983) and in the reduction of poverty, though without

changing the underlying pattern of wealth concentration (Danziger and Weinberg 1986; Gough 1979). Scholars commonly assume that redistribution in the socialist state would be more progressive than in the welfare state (Stephens 1986). Contrary to expectations, the redistributive mechanism in state socialist economies does not give rise to more equality, but to greater social inequality (Konrad and Szelenyi 1979; Szelenyi 1983). In state socialism, argues Szelenyi, the expansion of the dominant redistributive sector of the economy adds to the advantages of the already privileged and powerful. The effect of redistribution is more evident in higher nonwage compensations for the "redistributive class," such as housing, access to higher education, subsidies for certain commodities, the health and pension plans, and is only partially reflected in salaried income (Szelenyi 1983). Redistributors are "selfish" in that they "favor 'their own kind' (or more sociologically speaking: the class which is organized around the monopoly of redistributive power) when they allocate scarce resources" (Szelenyi 1978, p. 77).

THEORY OF MARKET TRANSITION

On the basis of his substantive analysis of social inequalities in state socialism, Szelenyi speculated that "the interests of the powerless and disprivileged can be best served with increasingly transactive (and consequently market-like) relationships in the economic system" (Szelenyi 1978, p. 63). The dramatic increases in peasant household income following market reform in China and the consequent narrowing of the rural-urban income gap are consistent with Szelenyi's inference. Under the redistributive economy, urban bureaucrats, professionals, staff, and salaried working class benefited from the low purchasing price of grain and other staples. Following market reform, prices for most agricultural products have risen sharply. This has dramatically increased the income of rural producers and has inflated the cost of food commodities to urban dwellers. Thus, whereas rural-urban inequality widened under the redistributive economy, it narrowed substantially after market reform (Ignatius 1988). Such descriptive analysis, however, fails to distinguish between redistributors and producers in both the rural and urban sectors of the economy, though it does demonstrate that the transition

from redistributive allocation to marketlike transactive exchange benefits direct producers, in this case peasant households, which make up about 80 percent of the population.

Though Szelenyi identifies the underlying processes of the redistributive mechanism in state socialism, he does not explain why the shift from redistributive to market coordination would benefit immediate producers; nor do Manchin and Szelenyi (1987) identify the processes underlying the expected transfer of power and privilege. By extending the logic of Polanyi's and Szelenyi's analyses of the redistributive economy to a reforming socialist economy, I propose the theory of market transition in the following interrelated theses:

(1) *The market power thesis:* If surplus is no longer monopolized by the redistributive sector, and more is allocated and distributed through marketlike exchanges, two things are likely to happen. First, less power—control over resources—is located in the redistributive economy and more in marketlike transactive exchanges. Second, when the price of labor and goods is based upon mutual agreement between buyer and seller, and not set by administrative fiat, direct producers have more power over the terms of exchange for their goods and services. Therefore, the transition from redistribution to markets involves a transfer of power favoring direct producers relative to redistributors.

(2) *The market incentive thesis:* Markets provide powerful incentives for immediate producers whereas redistributive economies depress incentives. In the state socialist redistributive economy, administratively set prices for labor (in industry and services) tend to lack sensitivity to differential performance and (for agricultural products) are set lower than market-determined prices. In market transactions, however, producers have the right to withhold their product or labor power until a mutually agreed upon price is set; as a result, a greater share of the surplus is retained by direct producers.[2] There are also greater incentives for individual effort because rewards are more closely related to individual productivity. This is likely to be reflected in higher returns of education, which is among the best indicators of human productivity (Mincer 1958; Schultz 1963).

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[2] Inequality produced by market action is the topic of another paper in progress.

(3) *The market opportunity thesis:* In state socialism the transition from redistribution to markets results in new opportunity structures centered on the marketplace. Rather than focusing exclusively on access to and mobility within the redistributive sector, market opportunities open up alternative avenues of socioeconomic mobility. Thus changes in the structure of opportunities give rise to entrepreneurship as an alternative to bureaucratic advancement in state socialism.

Together the three theses constitute a theory of market transition in state socialist societies. They specify the central processes in the shift from hierarchies to markets that involve fundamental changes in the sources of power, and in the structures of incentives and of opportunities. Changes in distribution will flow from changes in power, incentives, and opportunities. The processes are interdependent and occur simultaneously. Overall, the theory of market transition predicts that direct producers gain in power relative to redistributors in the sectors of the socialist economy that experience a shift from redistributive to market allocation.

The market transition theory turns on the decisiveness of the shift to reliance on the market mechanism in the allocation and distribution of goods. A corollary of the theory is that less market coordination and greater reliance on bureaucratic coordination will result in greater power of the class organized around redistribution. Therefore, in sectors and regions of the socialist economy where allocation and distribution continue to be based upon central decision, there will be little or no change in the processes determining stratification. For this reason we expect more continuity in the distribution of power and privilege in less commercialized hinterland regions, collective enterprises managed by township, county, and municipal administrations, and especially the socialized state sector. Another corollary of the market transition theory is that following a shift to market allocation sectors and regions that were "contributors" in societal redistributive processes prior to market reform will experience net gains over those that were beneficiaries of redistribution. For example, prior to market reform, redistribution diverted surplus from coastal industrial cities like Shanghai to support development in hinterland provinces. Economic reforms now allow factories to retain a substantially greater portion of profits. Thus, in the balance of exchanges between rural and urban sectors and coastal and inland provinces, the rural sector and coastal provinces in China have realized greater benefits from economic reform.

THE POLITICAL ECONOMY OF MARKET REFORM IN CHINA

Kornai (1986) contends that the dilemma of partial reform in the state sector results from "dual dependence" on bureaucratic and market mechanisms of economic coordination. Attempts to impose the discipline of markets on firms in the state sector have failed because market forces are constrained and dominated by continued bureaucratic micro-interventions (Kornai 1984). As a result, the urban economy has remained redistributive despite efforts to introduce more market coordination in the state sector (Lin 1989).

By contrast, the rural sector, as already shown, has experienced a decisive shift from redistributive to market coordination. Moreover, the structure of opportunities has changed rapidly as the rural economy has diversified from a predominant reliance on agriculture to a wide range of other sources of income (Watson 1988). This change is evident in the growing proportion of the peasant household income derived from nonagricultural sources (Table 2): that figure tripled between 1978 and 1985.

Because market reform in urban areas is still at an early stage, I focus on the rural economy to test the market transition theory.[3] Though some agricultural collectives in some regions of China persist as potent organizations that manage and allocate economic resources, the broader national trend away from redistributive to market coordination in the Chinese countryside is clearly documented in Table 1.

At the village level decollectivization sharply curtailed the redistributive power of "grass-roots" cadres (village officials). Nev-

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[3] Using an urban sample, Walder (forthcoming) shows that in Tianjin return on party membership declined from 1976 to 1985 and income inequality narrowed between cadres and workers. This finding is consistent with the market transition theory; however, it is difficult to assess from the Walder and Ruan study what aspects of structural change resulted in the relative decline in returns on human capital for party cadres and the reduction of inequality.

Table 2. Agricultural and Nonagricultural Sources of Income*
         Net Income Per Capita by Nature

Item	Unit	1978	1980	1981	1982	1983	1984	1985
I. Net income per capita	Rmb	133.57	191.33	223.44	270.11	309.77	355.33	397.60
Net income, productive	Rmb	122.86	166.39	194.51	237.15	272.91	315.06	350.07
Agricultural production[a]	Rmb	143.47	149.62	170.58	203.65	221.77	250.36	263.81
Nonagricultural production[b]	Rmb	9.39	16.77	23.93	33.50	51.14	64.70	86.26
Net income, nonproductive[c]	Rmb	10.71	24.94	28.93	32.96	36.86	40.27	47.53
II. Proportion (Total net income = 100)								
Net income, productive	%	92.0	87.0	87.0	87.8	88.1	88.7	88.0
Agricultural production[a]	%	85.0	78.2	76.3	75.4	71.6	70.5	66.3
Nonagricultural production[b]	%	7.0	8.8	10.7	12.4	16.5	18.2	21.7
Net Income, nonproductive[c]	%	8.0	13.0	13.0	12.2	11.9	11.3	12.0

[a] Referring to net income of peasants engaging in farming, forestry, animal husbandry, sideline occupation, and fishing.

[b] Referring to net income of peasants engaging in rural industry, construction, transport, commerce, and catering trade.

[c] Referring to income, both cash and in kind, sent or brought back by those working elsewhere, income received from collective accumulation fund and public welfare fund, income received from state budget, etc.

* Source: *Statistical Yearbook China* (State Statistical Bureau 1986a, p. 583).

ertheless, cadres still control the allocation of remaining collective assets (i.e., collective enterprises, orchards, ponds, and other productive properties owned by the collective), negotiate household quota production for the state, and collect taxes and other fees (Oi, forthcoming). In the transition from redistributive to market allocation, economic transactions are often embedded in social networks in which officials hold pivotal positions, certainly more so than in a market economy (Nee 1989). Local cadres frequently act as brokers or middlemen in exchanges involving economic transactions between peasant entrepreneurs and state agencies. Entrepreneurs must mobilize social networks to gain access to capital, labor, raw materials, technology, and markets, sometimes seeking access through bribes or gifts to local cadres.[4]

To the extent that hierarchical forms of economic coordination remain dominant, personal connections between state agencies, firms, and

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[4] Local cadres may negotiate with entrepreneurs to have relatives included in the ownership of firms in exchange for preferential access to collective/ state resources (Zhang unpublished). This is a form of payoff to political capital that would not be picked up in my analysis unless the relative is a member of the cadre's household. My analysis of the declining significance of political capital (reflected in returns to former cadre status) suggests, however, that where redistributive power of cadres has declined, the payoff in personal connections to them is likewise likely to decline in significance.

households continue to provide critical informal linkages. But where market reform has resulted in bypassing hierarchies, the extent of vertical segmentation characteristic of socialist economies is reduced as horizontal market relationships establish new social networks between private buyers and sellers. The market transition theory maintains that the more complete the shift to market coordination, the less likely that economic transactions will be embedded in networks dominated by cadres, and the more likely power—control over resources— will be located in market institutions and in social networks *(guanxi)* of private buyers and sellers. My study seeks to document this shift in the sources of power.

DATA AND MEASURES

I derive 10 hypotheses from the three market transition theses in order to provide multiple tests (Stinchcombe 1968) of the theory with data from peasant households and villages. As noted earlier, available national data is useful only for descriptive analysis. My test instead employs survey research data from the Fujian Rural Survey Project which was conducted during the summer of 1985 under the joint sponsorship of Xiamen University and the University of California at Santa Barbara, directed by the author who organized and trained the Chinese research team. Thirty-four graduate students and lecturers, recruited on the basis of ability to speak local

dialects, participated in the study.[5] A cluster sampling procedure selected 30 villages from two periurban counties chosen for their diversity in geographical and socioeconomic conditions. For those villages I then randomly selected a sample of 725 households from the household registers in the township governments, resulting in 624 completed interviews.

The dependent variable, household income, is based upon retrospective reporting of all sources of household cash income—agricultural, sideline production, nonagricultural, remittance of family members working outside the village.[6] Interviewers carefully explained to informants (household heads) the importance of accurate estimates of household income for the success of the study. Interviewers assured peasants of confidentiality and the independence of the survey from the Chinese government. The presence of a cadre was ascertained in a separate form prior to the main household questionnaire. The word "cadre" did not appear in the course of a 76- to 90-minute interview. Households with cadres should not have been any more apprehensive about disclosing a full estimate of household income than, say, entrepreneurs. But to the extent that households of current cadres systematically understated their household income, the estimations reported in the test of Hypothesis 1 of the market power thesis may be misleading.[7]

The exogenous variables include estimates of household income for 1975 and 1980 reported by the household head.[8] The human capital variable includes the pooled educational attainment of the household head and spouse,[9] measured by whether someone attended or graduated from primary, junior middle, senior middle, or technical school and college. I control for the effects of the age of the household head and the number of adult laborers and children in the household. The age of the household head was based upon the household register and confirmed during the interview. It is modeled as a quadratic function to account for the interaction between weaker physical capacity that comes with aging and enhanced human capital acquired through work experience. The number of adult laborers and children under 14 years of age was based upon self-report and confirmed in reviewing the household census. In household commodity production, as in collectivized agriculture, the

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[5] I am grateful to these participants and to my sponsors at Xiamen University for their support and contribution to the Fujian Rural Survey Project. I am appreciative of the contribution of Lin Boqiang, an economist trained at UCSB, who supervised the work of the survey research team.

[6] I made separate estimations of all the equations using a measure of household income that included the estimated value of food consumed by the household. The results were virtually identical to the estimations using household cash income. Because the study focuses on the effect of commercialization on stratification, I chose cash income for the dependent variable. When adjusted for food produced and consumed by the household, the mean household income was 3,417 yuan and mean per capita income, 646 yuan for 1984 in the Fujian sample. The mean household per capita income for China was 467 yuan in 1984.

[7] In general, bias in self-reported income in the Chinese interview setting is toward understating income. I note, however, that the reported mean income for all households in the sample is substantially higher than the national mean re-

ported by the State Statistical Bureau. For groups that are more likely to underreport their income—cadres and entrepreneurs—the reported mean income was higher than that of the mean of the sample. The higher mean income reported by cadres both before and after the reform is at least consistent with my view that cadre households probably gave reliable estimates of their household income. See Footnote 15.

[8] Household incomes were not adjusted for inflation. Peasants, however, benefit from price inflation in agricultural products, the primary cause of inflation since 1978. According to the official statistics released by the Chinese government, the rate of inflation from 1978 to 1985 was 8 percent (State Statistical Bureau 1986b, p. 623). I am skeptical about the accuracy of these figures and assume that the real inflation rate was higher. Double-digit inflation probably did not occur until the mid-1980s. Overall, peasants seemed to have a ready recall of their household income for these years. Because 1980 was the year of decollectivization, the 1980 household income was a benchmark that peasants seemed to remember well. The 1975 income may be more subject to estimation error; yet because household income in this period was relatively stable and was calculated according to workpoints, this estimate is plausibly accurate. Interviewers were instructed to assist informants making adjustments for family divisions for estimations of 1975 and 1980 income.

[9] Pooling the educational attainment of husband and wife is appropriate when the household is used as the unit of analysis.

number of laborers in a household is expected to have a very strong net effect on household income.[10] Children are the primary source of new labor power for the peasant household. Though children under 14 years of age do not work at their full adult capacity, peasant children typically start to contribute to the household economy at an early age, helping out in household tasks such as feeding and tending livestock, weeding, gathering kindling, carrying water, taking care of smaller siblings, and other lighter tasks.[11]

The use of media by households is an index constructed from measures off how frequently households listen to the radio, watch television, and read the newspaper, magazines, and journals. This variable can be interpreted also as an appropriate measure for a peasant society of the household's cultural capital (Bourdieu 1977).

Interviewers asked household heads whether a member of the household had ever served as a team, brigade, commune, or county cadre or was presently a cadre (village as well as higher levels). Household heads were asked whether they started up a household enterprise in recent years and how much they invested in the business. In order to control for the size of investment, and therefore the relative scale of the enterprises, I used the amount invested in starting up a private business as the variable for entrepreneur. The mean start-up capital for entrepreneurs was 1,603 yuan.

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[10] Fei (1946) suggested that in household production the Chinese peasant family achieved its optimal efficiency at a size of about 5 members. In 1985, the mean household size in the Fujian sample was 5.56, and the State Statistical Bureau national sample of peasant households reported a mean household size of 5.12 (State Statistical Bureau 1986, p. 583). The household structure in the Fujian sample ranged from nuclear (62 percent) to stem (22 percent) and joint (16 percent) family composition. The effect of household structure on changes in income, however, is not significant.

[11] Because children contribute to the household economy at an early age, the control for the number of children should show a positive effect on household income (see Table 3). Notwithstanding the net benefits of children's labor contribution to the household economy there is an inverse relationship between the number of dependents supported by a household and its per capita income. Thus, though children contribute at an early age to the household economy, they do so at a level lower than experienced adult laborers.

Institutional or contextual variables were drawn from village-level data. Urban proximity is measured by kilometers from the nearest city. Market access is a factor score that combined three locational measures of market access: distances to the nearest city, county town, and standard marketing town. Per capita farmland is based upon the arable land assigned to a household divided by the household size. The measure of the village's educational level is a factor score that combined the percentage of school-age children who graduated from primary and junior middle school in 1974 and 1984. Factor scores are based on confirmatory factor analysis. Lastly, the density of households with overseas relatives is based upon estimates by village cadres.

First, I examine the independent effects of occupational status on household income for current cadres, former team and brigade cadres, and entrepreneurs. Second, I compare the returns on human capital investments for the pooled husband's and wife's education on household income before and after market reform. Third, I estimate the effects on household income of the human capital variables, age of household head, the number of adult laborers and children in the household, and media use (or cultural capital). Fourth, I examine the independent effect of urban proximity on household income before and after structural reforms. Lastly, I estimate the changing effects on household income of the institutional context: urban proximity, market access, village educational attainment, per capital farmland, and density of village overseas connections.

A lagged income variable is used to absorb the determinants of household income not specified by the models. When lagged income variables are used, the regression analysis points to net returns of the exogenous variables on change in the dependent variable between Y_1 and Y_2. The structural equation model is: $Y_{t2} = bY_{t1} + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + U$, where Y_{t2} is 1984 household income and bY_{t1} is the lagged income variable.

THE MARKET POWER THESIS

Derived Hypotheses

Hypothesis 1 directly extends the market power thesis. If power is located more in

marketlike transactions and less in the redistributive sector, a differential growth of household income will occur after market reform. In other words, "The distribution of rewards in a society is a function of the distribution of power, not of system needs" (Lenski 1966, p. 63). If Hypothesis 1 is supported, market reform will result in no higher returns for redistributors relative to direct producers and entrepreneurs. (See Weakliem [unpublished] and Giddens [1974] on the relationship between income and power in a market economy.)

Hypothesis 1: The transition from redistributive to market coordination results in changes in the underlying processes of socioeconomic attainment that favor direct producers relative to redistributors.

I expect that changes in the underlying processes of socioeconomic attainment will reduce the value of political capital in a more generic sense. Not only are the direct controllers of the redistributive mechanism likely to experience a relative loss, but the value of their political capital accumulated through prior experience as cadre is likely to diminish as well. At the most general level, this hypothesis predicts a decline in the value of political connections. I can indirectly test this hypothesis by examining the returns on former cadre status. Former cadres have typically accumulated political capital through prior service and are likely to have strong *guanxi* ties (personal connections) with current cadres, since as former cadres they are likely to be members of the same status group.

The decline in the value of political capital must be viewed relative to other groups. Thus household income of cadres should have increased in recent years along the general trend. But relative to others, and especially entrepreneurs, cadres are not expected to gain special advantages, net of human capital and household characteristics, for their cadre status after the shift to a marketlike economy. Social groups closely linked to the market rather than the redistributive mechanism will experience higher gain in household income. If the hypothesis is supported, entrepreneurs should have significantly higher returns than cadres.

Hypothesis 2: The more market exchange replaces the redistributive mechanism in state socialism, the less the value of political capital relative to market capital.

A widely held view among China scholars is that local cadres have been surprisingly adept in their response to market reform by becoming entrepreneurial themselves (Zweig 1986; Oi 1986). According to this view, local cadres have used their political capital to establish a dominant role in the commercialization of agriculture to such an extent that entrepreneurs come mainly from cadre backgrounds. This interpretation fails to take into account the changes in the underlying processes that determine socioeconomic attainment accompanying a shift from redistributive to market coordination. In a market economy, specialists in redistribution are not necessarily more likely than other households to have the experience and orientation required for private sector entrepreneurship.

Hypothesis 3: In sectors of the socialist economy that experience a shift from bureaucratic to market coordination, redistributors have little or no net advantage in entering into private entrepreneurship.

Results

The results reported in Table 3 provide strong support for Hypotheses 1 and 2. In equation I, I regressed household income on a dummy variable of current village cadres. The regression coefficient, though nonsignificant, is negative and is consistent with the hypothesis that net of human capital and household composition, current cadres (CADRE) might not be keeping up with other households. Likewise, in equation II, when I regress household income on former cadre status, former team and brigade cadres do not appear to be getting returns on their cadre status. Thus cadre status and social network ties *(guanxi)* built up during the tenure as cadres do not seem to confer economic advantages in a marketlike economy.

When current and former cadres are compared to entrepreneurs in equation III, the results are more sharply contrasted. Current and former cadres seem to have gained no significant returns on their cadre status. On the other hand, cadre entrepreneurs are doing well and seem to have advantages over other entrepreneurs. This finding indicates that political power has utility for entrepreneurs. However, it may be that the cadre entrepre-

neur group includes individuals recruited to a cadre position because of their prior success as entrepreneurs. In controlling for entrepreneurship, current cadres now show a statistically significant negative return for their cadre status. Team cadres were the lowest-

Table 3. Effects of Cadre Status and Entrepreneurship on Household Income

	I	II	III
Education	89.131***[a]	86.572**	69.107**
	(29.825)[b]	(29.982)	(29.470)
	.131[c]	.127	.101
Age	97.186*	91.747*	70.743*
	(46.758)	(47.117)	(45.980)
	.605	.571	.441
Age^2	−.996*	−.939*	−.737*
	(.508)	(.512)	(.499)
	−.565	−.533	−.418
Labor	283.599***	279.928***	266.952***
	(49.059)	(49.244)	(47.953)
	.275	.272	.259
Children	126.630*	129.485*	120.440*
	(63.460)	(63.791)	(62.451)
	.084	.086	.080
Income '80	.993***	.996***	.990***
	(.095)	(.096)	(.094)
	.431	.432	.430
Media	91.950***	92.230***	90.257***
	(23.265)	(23.263)	(22.747)
	.171	.172	.168
Cadre	−187.885	−168.992	−467.683*
	(273.837)	(276.985)	(290.258)
	−.028	−.025	−.069
Former brigade cadre	−	386.493	449.114
		(355.033)	(368.913)
		.044	.051
Former team cadre	−	−8.182	−80.352
		(201.173)	(205.983)
		−.002	−.016
Peasant entrepreneur	−	−	.156**
			(.052)
			.122
Cadre entrepreneur	−	−	.584**
			(.209)
			.120
Former brigade entrepreneur	−	−	−.062
			(.344)
			−.007
Former team entrepreneur	−	−	1.040**
			(.558)
			.076
Intercept	−3314.211***	−3197.291***	−2601.119***
df	386	384	380
r^2	.403	.406	.445

Note: Regression of 1984 household income on husband and wife's education (Education), age of household head (Age), age squared (Age^2), number of adult laborers (Labor), number of children under 14 (Children), household income in 1980 (Income '80), media use (cultural capital) (Media), current cadre (Cadre), former production brigade cadre, former team cadre, peasant entrepreneur, and interactions between cadre status and entrepreneur.

* p .05.   ** $p < .01$.   *** $p < .001$.
[a] unstandardized coefficients.   [b] standard error.
[c] standardized coefficients.

level cadre in collectivized agriculture and were routinely engaged in agricultural work themselves. Thus they are advantaged, not as cadres but as direct producers in a marketlike economy. Overall, these findings provide strong evidence that the sources of power have shifted decidedly from the redistributive economy to the marketplace.

The cross-tabulation of cadre with entrepreneurs shows that current and former brigade cadres have a somewhat higher probability of being entrepreneurs than noncadre households, which is consistent with the view that cadres have been adept in their accommodation to a marketlike economy. This notwithstanding, the overwhelming majority of entrepreneurs come from direct producers, as predicted by the theory of market transition. Moreover, despite the descriptive evidence of a higher probability, the Goodman and Kruscal's Tau test indicates that knowledge of cadre background reduces the error in predicting entrepreneur status by one-half of one percent.[12]

A growing consensus among political scientists concurs with the findings reported in this analysis: that there has been a "redistribution of power to the peasantry" (White 1987, p. 418) following market reform (Shirk 1989; Latham 1985). I note, however, that the results of our analysis appear to be at odds with the impressions of some scholars who have recently visited China.[13] On the basis of case studies and anecdotal evidence, they report that rural cadres have been extraordinarily adept at the

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[12] Tables 3 and 4 refer to a reduced sample size because the cadre status item was added to the survey instrument after the survey was begun. For this reason, households in 6 of the 30 villages were dropped from the analysis reported in Tables 3 and 4. But since the villages were selected randomly, there should be no sample selection bias caused by the reduced sample size.

[13] Personal communication from Ezra Vogel, Louis Putterman, Huang Shu-min, and Dorothy Solinger. Vogel reports on the basis of work in Guangdong that many cadres have been bought off by entrepreneurs. Huang conducted a village study in which the party secretary used his political capital to become a prosperous entrepreneur. Solinger reports that cadres exert influence through their control of information and official sources of credit. And Putterman suggests that cadres appear to control market guanxi in the areas he has visited.

instrumental use of political capital—*guanxi* ties and official position—for private gain. These seemingly contradictory findings, however, need not be interpreted as such. I assume that rural cadres have been vigorous in pursuing their material interests with all the means available to them, and that guile and opportunism have been common among rural cadres. After all, if the state exhorts peasants to enrich themselves, why should peasant cadres be excluded from the pursuit of private gain? Current cadres and former cadres have become entrepreneurs (see Table 4). Moreover, rural cadres have traded official favors for gifts or bribes, gained unfair advantage in the private use of collective resources, and in general attempted to exercise control over the commercialization of the agricultural economy (Nee 1989).

The market transition theory maintains that redistributors in sectors of the socialist economy that have experienced market reform are unable to keep up by drawing on their political capital alone, because fundamentally, the shift from redistribution to markets involves a change in the sources of power and privilege. Reflecting this change, I cite an example of a common attitude conveyed by rural cadres to the field research team in the course of open-ended interviews. "Nowadays, if you don't work, you have nothing to eat. I have tons of work to do for my family. How can I have energy to take care of the village's affairs? Besides, if I do a good job for my family I'll earn more, but a good job for the village earns me nothing. Why bother?" Prior to market reform, rural cadres maintained near monopoly control over village economic resources. But following the reform, village-level cadres no longer have that much power, and therefore there is less need for peasants to seek favors of them. While a cadre may benefit materially from taking an occasional bribe or accepting gifts, in a market economy the greatest increases of wealth come from successful entrepreneurship, and not from petty bribes and gifts.[14] That many cadres accept gifts or bribes in exchange for official favor in itself reflects the shift in the sources of power which our

Table 4. Cross-Tabulation of Cadre with Entrepreneurs*

	Never Cadre	Former Team Cadre	Former Brigade Cadre	Current Cadre
Non-Entrepreneurs	80.7% ($n=301$)	83.6% ($n=61$)	72.2% ($n=13$)	73.5% ($n=25$)
Entrepreneurs	19.3% ($n=72$)	16.4% ($n=12$)	27.8% ($n=5$)	26.5% ($n=9$)
Total	100% ($n=373$)	100% ($n=73$)	100% ($n=18$)	100% ($n=34$)

* Reduced sample size ($n=498$). Goodman & Kruscal's Tau = .005. See Footnote 12.

findings document. It is also important to keep in mind that our analysis specifies the effect of structural transformation on *change* in income, not the *level* of household income. In our sample, cadres have a higher mean household income before and after market reform, but the increase in household income is no higher than that of other households, and substantially lower than that of peasant entrepreneurs.[15]

THE MARKET INCENTIVE THESIS

Derived Hypotheses

During the period of collectivized farming, schooling in rural China did not appear to serve as an avenue for family prosperity or individual social mobility. Though schooling was seen as providing useful knowledge, parents believed that schooling was not indispensable as preparation for farm work (Parish and Whyte 1978). Moreover, there were no clear benefits associated with more schooling. Schooling did not appear to provide ambitious young peasants an avenue for upward social mobility, such as assignments to state sector jobs or cadre positions in the village and local government. Middle school graduates typically had no alternative but to return to the village after graduation, where they discovered that they were often at a disadvantage to village youth who had entered farming earlier and had already become experienced farmers (Nee 1983). More schooling did not result in higher

[14] The assessment of cadre gains after market reform reported by field researchers very often are based upon observations made in the redistributive sectors where cadres continue to benefit form the "gift economy."

[15] The mean household income in yuan for all households was 1,089 in 1980 and 2,344 in 1984 (exclusive of cadres and entrepreneurs); for cadres it was 1,222 in 1980 and 2,839 in 1984; and for entrepreneurs it was 1,381 in 1980 and 3,242 in 1984.

workpoint assignments from the team since workpoints were assigned almost exclusively on quantity of labor inputs. Nor did more schooling entitle a village youth to a cadre position, which depended more on the accumulation of political capital from village-based activism than on educational credentials (Madsen 1984).[16]

The transition to a marketlike economy should result in higher returns to human capital characteristics. First, markets provide powerful incentives for direct producers through both positive and negative sanctions. In household production the economic well-being of households depends entirely on the performance of its productive members in a more complex and demanding economic environment. Rather than simply accumulating workpoints based upon labor inputs in agricultural production, the household in a marketlike economy pursues a strategy of maximizing profits from existing income streams and developing new, more profitable lines of activity. Rather than earning workpoints on a steady, predictable basis, peasants in a marketlike economy are transformed into petty entrepreneurs whose relative success is based upon the ability to make short- and long-term investment decisions based upon informed cost-benefit calculations. Educated peasants who are better able to draw on and use available information have a clear advantage over illiterate peasants (Schultz 1964). Second, in a marketlike economy, profit making is associated with the production of cash crops, lucrative sidelines, and nonagricultural enterprise. The ability to learn and acquire the techniques required for the introduction of more profitable undertakings typically depends on having some degree of formal education, at last enough to read and digest simple technical literature. In the post-Mao era of sweeping institutional reforms, the educated peasant has an advantage

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[16] Despite negligible returns on education in collectivized agriculture, school attendance increased during the Maoist era from prerevolutionary China. The expansion of mass education in state socialism can be explained by the change in political power and associated ideology in a successful social revolution (Easterlin 1981). During the Maoist era, sustained ideological and mobilizational efforts were directed at increasing the educational attainment of peasant children. These have declined following decollectivization.

in being more able to discern subtle policy transitions and political trends transmitted in the news media and to understand the implications of these changes for the local political economy.

In collectivized agriculture entire villages got along with a few subscriptions to the party newspaper and radio broadcasts. Today there is a surprisingly wide range of technical and market-oriented newspapers and magazines available to households, as well as a wider selection of radio and television programs. In part this reflects the liberalization of the cultural sphere in post-Mao China. It also reflects the greater demand for information among rural families. Rather than local cadres being the principal readers of printed news, after market reform peasant households consume an increasingly diverse range of media and printed information. The household's use of media (cultural capital) is expected to have a significant net effect on the household's earning power in a marketlike economy. This is consistent with the revised attainment model proposed by DiMaggio and Mohr (1985) in which they incorporated cultural capital as an independent determinant of socioeconomic outcome.

Hypothesis 4: For both men and women the transition from state socialist redistribution to markets increases the value of education to the household.

Hypothesis 5: Media use (or cultural capital) has a positive effect on household income in a marketlike economy:

Results

In Table 5, I do not attempt to estimate a complete model of the processes of household earning power (which is reported in subsequent tables). Rather I assess the change in returns on human capital measured by schooling following market reform. The purpose is to determine the effects and significance of market reform on household returns to human capital investments rather than the parameters of the model as a whole. Lagged income variables for 1975 and 1980 capture the unspecified determinants of household income. Though the effects of the combined husband and wife's education (EDUCATION) were not significant, its sign is negative. Equation V reveals a dramatic

Table 5. Effects of Human Capital on Household Income 1980 and 1984

	Before Market Reform IV	After Market Reform V
Education	−13.599[a]	62.325**
	(9.095)[b]	(23.741)
	−.045[c]	.094
Income '75	1.011***	—
	(.040)	
	.759	
Income '80	—	1.208***
		(.077)
		.561
Intercept	377.362***	810.78***
df	468	524
r^2	.577	.322

Note: Regression of household income on husband and wife's education (Education).
   * $p < .05$.   [a] unstandardized coefficient.
  ** $p < .01$.   [b] standard error.
 *** $p < .001$.   [c] standardized coefficient.

turnaround in the effect of husband and wife's education ($p < .01$) on household income.[17]

In Table 6, equation VI is a more complete model of household earnings. As predicted by Hypothesis 4, the effect of education on household income following market reform is significant and positive for husband and wife's education ($p < .001$).[18] Equation VII

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[17] When the husband's and wife's educational attainments are disaggregated, the effect of wife's educational attainment is significant ($p < .001$), whereas the husband's remains nonsignificant. But in the complete model used in Table 6, both husband's ($p < .05$) and wife's ($p < .001$) educational attainments are significant when disaggregated. Adult female illiteracy is still very high, at 68 percent. Peasant women play a central role in household commodity production, whereas grain production to satisfy subsistence needs and meet the state grain quota continues to be largely a male-dominated activity.

[18] A paradoxical outcome of market reform was the sharp decline in school enrollment of peasant children. Whereas in the Maoist era, when there was no apparent significant return to education, school enrollment steadily increased, after market reform, peasants withdrew their children from school in record numbers. Although my regression analysis indicates significant returns to education after market reform, it may take awhile for people to recognize the changes in returns on education. Education is a long-term investment, the benefits of which may not accrue directly to the parents, especially in the case of daughters who marry out

(Table 6) provides strong support for Hypothesis 5 showing that media use or the cultural capital of a peasant household is very strongly associated ($p < .001$) with the rate of growth of household income. A separate analysis indicates that husband and wife's education ($p < .001$; standardized regression coefficient = .31) and 1975 household income ($p < .001$; standardized regression coefficient = .17) are strong and significant predictors of media use (cultural capital). This finding supports the view that media use (cultural capital) is a function of educational and household socioeconomic attainment prior to market reform.

THE MARKET OPPORTUNITY THESIS

Derived Hypotheses

The following hypotheses examine institutional or contextual effects on household earning power. These hypotheses suggest that the transition from state socialist redistribution to markets results in changing the manner in which structural variables affect earning power at the community level. If the market opportunity thesis is correct, I expect that market reform will strengthen the effects of market structures on household income.

During the Maoist era of collectivist agriculture, rural-urban trade was curtailed under the state procurement plan in which agricultural surplus was sold directly to the state. Rigid constraints barring free trade between peasant producers and urban markets were enforced (Lardy 1983). All forms of long distance trade involving peasant producers came to a virtual standstill (Lyons 1987). Villages became increasingly self-sufficient, resulting in the constriction of marketing activity within the local marketing system.

Following market reform, however, rural-urban trade in China expanded rapidly, as peasant households once again were permitted to market their products directly in urban

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of the household and are not expected to support the parents in old age. Thus short-term calculations of costs and benefits have led peasants to withdraw children from school to meet a perceived labor shortage in the household economy after market reform. I anticipate, however, that school enrollment and educational attainment for peasant children will eventually increase beyond the level achieved in the Maoist era.

Table 6. Model of Peasant Household Economy

	Human Capital VI	Media Cultural Capital VII
Education	106.002[a]***	74.377**
	(25.339[b]	(26.291)
	.157[c]	.11
Age	82.315*	89.589*
	(40.662)	(40.098)
	.524	.531
Age^2	−.868*	−.845*
	(.451)	(.445)
	−.497	−.483
Labor	260.988***	262.086***
	(39.861)	(39.702)
	.275	.275
Children	101.851*	120.638*
	(54.033)	(53.576)
	.071	.084
Income '80	.988***	.928***
	(.080)	(.080)
	.466	.437
Media	—	82.539***
		(19.386)
		.162
Intercept	−2228.568***	−2851.880
df	482	474
r^2	.389	.413

Note: Regression of 1984 household income on husband and wife's education (Education), age of household head (Age), age squared (Age^2), number of adult laborers in household (Labor), number of children under 14 years of age (Children), household income in 1980 (Income '80), and index of media use (cultural capital) (Media).

   * $p < .05$.   [a] unstandardized coefficient.
  ** $p < .01$.   [b] standard error.
*** $p < .001$.   [c] standardized coefficient.

markets. Not only did rural-urban trade expand rapidly, but long distance trade resumed as well. The rapid increase in transactive market exchange opened up village economies to market integration. As a result the encysted character of Chinese villages (Parish and Whyte 1978) may be breaking down as horizontal market ties restore rural-urban and inter- and intra-regional trade. Hypothesis 6 predicts that the restoration of rural-urban trade will be reflected in the increased significance of urban proximity as a determinant of peasant household income.

Hypothesis 6: In a reforming socialist economy, urban proximity has a more positive effect on peasant household income than in a state socialist redistributive economy.

In a market economy, locational access to markets is expected to have an increasing effect on household income for several reasons. First, the more distant markets are, the more costly the transport of products to the marketplace. Second, market proximity provides households with better access to market information. Lastly, market proximity provides advantages in network terms, in developing and maintaining *guanxi* connections with brokers and entrepreneurs whose activities converge on marketing centers. The market access variable takes into account the effect of access to the local and intermediary markets in which peasants participate, and is therefore a more comprehensive measure of market access than proximity to the urban market. Though rural-urban trade was curtailed during the Maoist era, peasants continued to market their produce in the standard marketing towns and county towns. For this reason, market access is expected to have a significant effect on household income prior to market reform, but a stronger effect is expected after market reform.

Hypothesis 7: The transition from a state socialist redistributive economy to a market economy increases the effect of market access on household income.

Sustained growth in peasant agriculture according to Schultz (1963) depends on the acquisition of modern techniques of production by farming households. Thus an important determinant of economic growth is a community's investment in schooling. The presence in a village of larger numbers of literate and educated peasants benefits all households in creating a greater receptivity to new methods and innovations; likewise, high levels of illiteracy in a village are a source of constraint on the diffusion of modern production techniques among households in the village. Education thus has not only an individual-level, but also a community-level effect on changes in household income.

Hypothesis 8: The transition from a state socialist redistributive economy increases the value of community investments in education.

In collectivized agriculture the emphasis on self-sufficiency and the constraints on market transactions led to a greater reliance on grain production as the primary source of income. The Maoist policy of self-sufficiency, state procurement, and restriction of rural marketing brought about a sharp reduction of

sideline commodity production as a source of income for peasants, though it continued to constitute about 25 percent of household income (Fei 1979). Following market reform, sideline commodity production has increased sharply. In the Fujian sample, income from sideline production in 1984 made up 55.2 percent of total household income. Thus after reform a larger proportion of household income derives from factors of production other than the arable land assigned to the household.

Hypothesis 9: The per capita land holding is likely to have a decreasing effect on household income in a diversified commodity economy.

Fei (1953) pointed to the "social erosion" of Chinese villages as a result of out-migration to urban centers in the prerevolutionary period. Out-migration of young men and the consequent dependence on remittances sent back from abroad may cause underdevelopment of the village economy. Not only is there an outflow of the most talented and energetic men, but also the long-term effect of dependence on remittances may be a welfare mentality. Thus "social erosion" is likely to become more pronounced in a market economy where restrictions on labor migration are relaxed and out-migration of young laborers resumes, especially in villages with a tradition of high levels of labor migration.

Hypothesis 10: In reforming socialist economies, a history of high out-migration has a negative effect on individual household income in a village.

Results

The data in Tables 7 and 8 support the institutional effect hypotheses. Table 7 provides clear evidence that in the period prior to decollectivization (equation VIII), urban proximity did not matter to households in terms of growth in their earning power.[19] Urban proximity, among the strongest determinants of rural income throughout the world (Schultz 1953), may have dropped

[19] Skinner (1978) shows that suburban communes located within metropolitan boundaries benefited from urban proximity prior to economic reforms and achieved economic parity. In his view the urban/rural divide should be redrawn as "urban *cum* peri-urban islands" in a sea that is more strictly rural.

Table 7. Effect of Urban Proximity on Household Income 1980 and 1984

	Before Market Reform VIII	After Market Reform IX
Distance to city	−.731[a]	−11.089**
	(.698)[b]	(1.704)
	−.032[c]	−.229
Income '75	1.012***	—
	(.041)	
	.758	
Income '80	—	1.200***
		(.076)
		.557
Intercept	393.288***	1758.081***
df	449	504
r^2	.577	.379

** $p < .01$.   [a] unstandardized coefficient.
*** $p < .001$.   [b] standard error.
                       [c] standardized coefficient.

out as a predictor of household income in collectivist agriculture. After structural reform (equation IX), urban proximity gained very considerably in its effect on the rate of growth of household income within a community. For every kilometer further from an urban center, peasant households in a village lose about 11 yuan in growth in household income after structural reform. The results in Table 7 provide strong evidence to support the view (Hypothesis 8) that decollectivization and market reform have resulted in the renewal of the traditional relationship between urban proximity and the level of household participation in rural-urban trade. Peasant households in communities located closer to cities are better able to market their products in the more lucrative and differentiated urban markets.

Data in Table 8 show that the independent effect of market access increases as markets become more important in economic coordination. Growth of household earnings is significantly lower in villages that have a history of overseas emigration. Especially striking is the changing effect of village investment in education, from a very significant negative to an equally significant ($p < .001$) positive effect on growth in household earnings. This finding is consistent with the results reported on the effect of household educational attainment on income before and after market reform. Lastly, the change in the size of the coefficient and the higher t-ratio ($t = -1.27$) weakly support the hypothesis of a decreasing effect of land holding after market reform.

Table 8. Institutional Effects on Household Income

	Before Market Reform X	After Market Reform XI
Per capital land	$-.545^a$	-89.201
	$(26.674^b$	(70.456)
	$-.001^c$	$-.045$
Distance to markets	$-42.727*$	$-192.841**$
	(25.282)	(63.834)
	$-.051$	$-.107$
Village education	$-81.342***$	$303.590***$
	(26.457)	(65.208)
	$-.096$	$.170$
Oversea migration	-28.699	$-166.152*$
	(32.289)	(79.232)
	$-.028$	$-.077$
Income '75	$1.031***$	—
	$(.040)$	
	$.770$	
Income '80	—	$1.235***$
		$(.075)$
		$.577$
Intercept	$364.428***$	$1296.149***$
df	458	511
r^2	$.587$	$.372$

Note: Regression of household income on per capita land assignment, distance to markets, village educational level, density of overseas Chinese connections, 1975 household income, and 1980 household income. Distance to markets and village education are factor scores based upon confirmatory factor analysis.

$* p < .05.$ [a] unstandardized coefficient.
$** p < .01.$ [b] standard error.
$*** p < .001.$ [c] standardized coefficient.

CONCLUSION

I began with Polanyi's concept of redistribution and nonmarket trade, pointing to the way in which Szelenyi applied these concepts in a substantive analysis of social inequality in state socialism. In state socialist redistributive economies, surplus is appropriated from producers through the nonmarket trade of labor and commodities and redistributed by administrative processes. Under the redistributive mechanism, the allocation and distribution of surplus benefit Szelenyi's new class since redistributors tend to favor their own.

By building on and extending the conceptual framework developed by Polanyi and Szelenyi, I proposed a theory of market transition. Three theses explain the effect of the transition to transactive markets on the distribution of rewards in state socialism. The market power thesis argues that as markets replace redistributive mechanisms in the allocation and distribution of goods, there is a shift in the sources of power from the redistributive sector to the marketplace. The market incentive thesis argues that markets provide more incentives than do redistributive economies. The market opportunity thesis states that the shift to market coordination gives rise to new opportunity structures centered on the marketplace, changing the manner in which structural constraints affect socioeconomic outcome. A fundamental change in the processes of socioeconomic attainment occurs in the transition from redistribution to markets, involving not only a reduction in the relative transfers of surplus from producers to redistributors but changes in opportunity structures and incentives resulting from market reforms.

The fate of market reform depends not only on economic efficiency, but ultimately also on struggle over the distribution of power and privilege. Efficiency and power are intertwined in the sense that if market reform results in more rapid economic growth, this is likely to make the struggle over rewards less contentious. High inflation in food prices already has led to widespread urban discontent and resentment. The high rate of economic growth, however, has allowed the state to respond by increasing urban income and bonuses to salaried employees. In an expanding economy, despite the transfers of power this paper documents, the greater affluence produced by markets reinforces the sense that the benefits of economic reform are widely distributed. Though some have gained more than others from market reform, even urban dwellers have experienced net improvements in standard of living. If, however, economic growth falters and declines, there will be intense urban pressure to constrain markets and to reimpose redistributive power over peasants while curtailing entrepreneurship in the second economy. Who gains and loses in the shift to market coordination structures the bureaucratic politics of reform (cf. Shirk 1989). The politics of reform cycles is shaped by the interest of redistributors to limit reform to partial measures and by the need to deepen reform to achieve efficiency and growth (cf. Stark and Nee 1989, pp. 25–29).

If in the future there is a decisive shift to market coordination in the collective and state-owned industrial sectors, the market transition theory advanced in this paper can be tested on urban data as well. I suspect, however, that this is not likely to occur in the absence of corresponding political reforms of the Leninist party state. As Brus points out,

bureaucratic coordination of the state sector is virtually inseparable from the way power is exercised in state socialism, which depends on the "ability to direct and redirect resources by commands in order to achieve chosen political priorities" (1989, p. 261).

Furthermore, a transition to markets in the urban sector would bring the issue of ownership to center stage. The quest for greater efficiency and competitiveness can be expected to give rise to pressures to privatize state-owned enterprises, as it has in capitalist economies (Ikenberry unpublished). If urban reform achieves a breakthrough, high-ranking state officials can be expected to use their power to attempt to procure a controlling share of the equity of industrial enterprises through favorable access to credit from banks. The prospect of equity ownership by high officials opens the distinct possibility of high-level redistributors making successful accommodations to a market economy. Despite changes in the sources of power and privilege, this may result in a greater initial continuity in the stratification order than observed in the rural sector. Although any trajectory to a market economy will retain a strong bureaucratic component, the market transition theory predicts that such advantages of political power and connections will decline following the immediate transition period. Selection processes in a market economy are not likely to discriminate between enterprises managed by former redistributors and by nonbureaucratic entrepreneurs. Moreover, as economic action bypasses hierarchies to center on transactions between private buyers and sellers, the power of redistributors becomes less salient.

Kornai (1986) specifies the consequences of partial economic reform in the state sector for economic efficiency. In his view, partial reform brings out the worst aspects of central planning and markets, thereby exacerbating the problems of a shortage economy (Kornai 1989). Neither Kornai nor this paper addresses the distributive consequences of partial reform. I instead focus only on the sector where a transformative shift from hierarchies to markets has taken place. While redistributors in the marketized sector have lost power, in sectors and regions where reform has been partial or incomplete, positional power in the state bureaucracy provides continuing and often lucrative private advantages. Redistributors profit from partial reform to the extent they double dip by leveraging power in the redistributive economy to gain unfair advantage in the marketplace. The rapid growth of official corruption (*quandao*) reported in the Chinese press reflects the efforts of redistributors to benefit directly from market opportunities.

The market transition theory has shown that the shift from hierarchies to markets in a socialist economy involve changes in the determinants of socioeconomic attainment and therefore the sources of power and privilege. This knowledge provides new directions of research on state socialism: examining the distributive consequences of partial reform when redistributors double dip in redistributive and market opportunities, specifying the dynamics of social inequalities created and structured by the marketplace; analyzing the effects of market reforms on regional and sectoral growth and distribution; modeling entrepreneurship and labor market processes that transfer surplus labor into the second economy; analyzing the role of the state in establishing the institutional framework of a mixed economy; and studying how changes in the balance of power in reforming socialist societies shape class conflict and the politics of markets.

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