



## Ownership Restructuring, Marketization and Wealth Inequality in Urban China: 1995 and 2002

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### Abstract

*This paper proposes a property transformation perspective to examine the mechanisms of wealth accumulation and wealth inequality creation during China's post-1978 transformation. It examines how enterprise ownership restructuring, marketization and state politics have resulted in greater wealth inequality between cadres and ordinary workers, between public sectors/organizations and private sectors/organizations. Mainly drawing on data from the Chinese Household Income Project conducted in 1995 and 2002, we find that the property transformation process has created greater wealth disparity among different occupational groups and among those working in different work organizations since the mid-1990s. However, it is inconclusive whether non-housing wealth or total household wealth are increasing at the same pace across different occupations and work organizations with the growing market penetration and the spread of privatization.*

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Key words: marketization, ownership restructuring, property transformation, wealth inequality

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### I. Introduction

For three decades, China has been undergoing a great transformation, from a planned to market-oriented economy. Today market coordination plays a dominant role in resource

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allocation in almost all sectors of the Chinese economy. This has been reflected in the small percentage of transactions conducted at the state-guided or state-fixed price for producer goods, retail sales and farm commodities since the middle of the 1990s (Dougherty *et al.*, 2007). The successful economic transformation has facilitated remarkable economic growth and expanded China's national wealth.

Marketization of the economy has been accompanied by the attenuation of public property rights and a burgeoning private sector. In 2007, the private sector contributed 66 percent of China's GDP and 71 percent of China's tax revenue (Chen and Dickson, 2008). In 2003, a survey of a quarter of a million industrial companies revealed that more than half of the firms' value added was from the private sector (Dougherty *et al.*, 2007).

The rapid growth of China's national wealth and the private sector begs the question: Is private wealth equally distributed across different social and economic sectors, organizations and households? A host of studies have shown that China was once among the most equitable countries in regards to income distribution, but now displays one of the highest levels of income inequality (Rozelle, 1994; Riskin *et al.*, 2001). Other studies (Meng, 2007; Li and Zhao, 2009) also find that private wealth disparity has been increasing since the post-1978 reform. Income growth from property holdings such as houses, savings, stocks and bonds has surpassed that from disposable income (Zhou, 2008).

This calls attention to the need to study private wealth accumulation and wealth inequality during the post-1978 transformation in China. How has formerly public property been reallocated, reorganized and reevaluated in the market economy? How has wealth disparity across different sectors, organizations and households been created during the post-1978 transformation? A puzzling but related research question thus arises: Is the wealth inequality between different households, organizations and sectors a result of marketization, property rights restructuring, or both?

These questions speak to a large body of market transition literature on the relationship between the economic transformation and changing mechanisms of socioeconomic stratification in China.

## II. Theory and Hypothesis

### 1. Literature Review and Critique

The literature on China's economic transformation and its implications for the socioeconomic stratification of different social groups in China can be categorized into three main perspectives.

The first perspective sees this transformation as a "market transition" in which market

coordination increasingly replaces socialist state redistribution in resource allocation. This perspective views the capitalist market economy as the destination of China's transformation (Nee, 1989, 1991, 1996). This view suggests that a market transition brings about a *relative* decline in political elites' power and accompanying economic advantage because markets provide new bases of power, incentives and opportunities for direct producers and entrepreneurs, who are disadvantaged in the socialist redistributive system.

The second perspective places the state and changes in property rights at the center of the transformation, viewing the transformation as a process of reassigning (Walder, 1994) and recombining property rights (Stark, 1996; Stark and Bruszt, 1998) by the state.<sup>1</sup> Therefore, the impact of the market depends on the ways public assets are allocated, the characteristics of the assets (e.g. liquid versus fixed) and the organizational structure of the economy (Walder, 1996, 2003, 2008). Cadres may derive relatively greater incomes from the reallocation of public assets (e.g. land and factories) due to their increasing control over those assets.

The third perspective conceives of the transformation as a dual transformation (Parish and Michelson, 1996), a co-evolution (Zhou, 2000) or an interactive process (Bian and Zhang, 2002) of market and state politics. This perspective emphasizes the important effects of political policies and market reform and their joint effect on income stratification. According to this perspective, cadres' power and economic advantages may not decline because they are holding strategic positions (Bian and Logan, 1996), which enable them to better protect their vested interests (Zhou, 2000) or to convert their political capital and connections to economic benefit during the market transformation (Rona-Tas, 1994).

Market-centered theory, property rights-centered analysis and the politics-market interaction approach have all shed light on the changing mechanisms of socioeconomic stratification in transitional China. However, from the perspective of wealth accumulation and wealth inequality in a transitional economy, the literature is insufficient in several respects.

First, the economic transformation in China has been multidimensional and consists of a number of interrelated institutional changes: marketization, changes in economic structure, property rights and state policies (Szelenyi and Kostello, 1996; Walder, 1996; Zhou, 2000; Bian and Zhang, 2002; Nee and Opper, 2007), as well as reforms of regulations and the legal system (Wu, 2007). The existing published literature often highlights one side of the

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<sup>1</sup> Nee and Opper's (2007) recent work also recognizes the importance of the state and property rights during the post-1978 transformation, but their predictions for the role of the state and property rights transformation pose apparent contrasts with those of state-centered analysts. See Keister (2009) for an extensive discussion.

transformation process while overlooking others. The market transition framework overemphasizes the sweeping force of market coordination over resource distribution. The property rights-centered approach is restricted to the opportunities from ownership restructuring, and the politics-market interaction perspective omits the effect of changes in property rights. Although some have explicitly teased out the importance of marketization, property rights reallocation and state policies on stratification (Nee and Cao, 1999; Zhou, 2000; Bian and Zhang, 2002; Walder, 2008), the changes in the first two economic institutions and state politics have not been explicitly incorporated into theoretical or empirical analysis at the same time to explain China's dramatically changing socioeconomic stratification. However, it is difficult to reach a good understanding of wealth accumulation and wealth inequality without a substantive, simultaneous analysis of these two institutional changes and state politics. Despite small changes in the basic political structure since the onset of economic reforms, marketization and ownership restructuring, in combination with state politics, have dramatically reshaped China's economy and private wealth disparity. On the one hand, if all property remained public as in the Mao era, private wealth accumulation and wealth inequality would have been impossible. Ownership restructuring and privatization have offered Chinese citizens in the post-1978 period legitimate opportunities for acquiring private wealth. On the other hand, the value of private assets and stocks is meaningless without the presence of relevant markets (e.g. housing, land and financial markets). Markets provide property owners places to trade different types of assets and generate new wealth. Ultimately, privatization and marketization are not self-regulated. They must be carried out by the state, whether or not the political institutions of the state have been restructured. Therefore, the effects of privatization and market development on socioeconomic stratification depend also on state politics and how reform policies are implemented.

Second, most studies almost exclusively examine changes in household or individual income opportunities during the marketization or property rights reform (or they do not distinguish between income and wealth at all). The market transition perspective focuses on how emerging production and labor markets change the way different social groups earn income. However, according to property rights-centered and politics-market approaches, property rights reallocation, state politics and marketization offer cadres more income or rent-seeking opportunities. Despite variations among the three perspectives outlined above, they share the same mechanism for wealth accumulation and the creation of wealth inequality: private wealth and wealth inequality are generated through income accumulation due to the growth of production and labor markets and changes in property rights. Hence, we characterize the existing literature on wealth generation and wealth inequality as taking an *income generating* perspective. This approach essentially equates income generation with wealth accumulation and is, hence, inadequate because income

accumulation is just one avenue toward wealth.<sup>2</sup> This approach largely ignores other possible trajectories of wealth accumulation: transforming public assets to private with property rights restructuring (*gaizhi*) and privatization, as will be elaborated below.

Third, most market transition literature does not distinguish the effects of different types of markets on different social groups and work organizations/sectors. The post-1978 transformation entails the emergence of new types of markets and occupations, new organizational forms and new economic sectors. The existing literature often fails to scrutinize the consequences of the emergence of new markets, such as the land market, the housing market and the financial market in China since the mid-1990s, which may have different impacts on socioeconomic stratification than production and labor markets.

## 2. A Property Transformation Perspective

Building upon the existing published literature, this paper looks at the post-1978 transformation and wealth inequality from a *property transformation* perspective. This perspective asserts that in a transitional post-1978 economy, the core institutional changes that significantly affect wealth stratification are property rights restructuring and marketization. Post-1978 transformation is a process of property transformation and marketization that creates greater wealth stratification among different households in different organizations and sectors. Focusing on how public assets are reallocated, reorganized and reevaluated rather than how income is generated and accumulated, property transformation involves three interrelated processes. First is the process whereby increasing amounts of public assets are *transferred* from the state to individual households through ownership restructuring. This has been taking place through two main channels: urban housing privatization and property rights restructuring of public enterprises. The pace and methods of assets transfer vary greatly with local conditions. However, the trend toward more private holdings is clear. Second is the process in which former state assets are *reorganized* into different sectors in the new market economy. By consolidating state control over a few politically and economically strategic sectors and delegating relatively peripheral sectors to the market, this reconsolidation is completed via several administrative methods: protecting the state monopoly over a number of core sectors through state laws, regulations and policies, withdrawing state control from some uncritical sectors (such as unprofitable small size manufacturing industries), and privatizing some formerly state-

<sup>2</sup> Income and wealth are usually positively correlated in that the proceeds of higher income can be saved, generating wealth, and wealth can be invested to yield more income. However, the association between the two is not that strong. An analysis of the Chinese Household Income Project 1995 and 2002 urban data reveals that the correlation between household income and net household wealth was approximately 0.4 in both years.

provided services within work organizations (e.g. housing, dining, education, health care, pensions, entertainment services and facilities). Third is the process in which state assets are *revaluated* within the newly developed markets (e.g. the land, housing and financial markets). This contrasts with the planned economy, which evaluates state assets using non-market methods.<sup>3</sup> In these new markets, the prices of various public assets are re-assessed largely through the equilibrium of supply and demand. With marketization, new values are assigned to former public assets.

Unlike the market transition perspective and property rights perspective, our perspective treats ownership transformation and the emergence of markets as equally important for understanding wealth disparity. We argue that both institutions have separate as well as interactive effects on wealth distribution. Furthermore, we examine what type of state assets are being transferred and evaluated under what type of marketization, and how wealth inequality across different households, organizations and sectors is generated. There are two main components to the property transformation since the 1980s. The first is housing privatization and the second is state-owned enterprise restructuring and privatization. The former coincided with the emergence of a housing market, and the latter with the rise of a financial market. Since the mid-1990s, acceleration in the rates of urban housing privatization and public enterprise ownership restructuring has offered different social groups various opportunities to seize a great deal of former publicly-owned property. Meanwhile, the development of land, housing and financial markets has greatly appreciated the values of these former public assets. Urban housing, land use rights, and other state-owned or state-controlled assets have become valuable where market demand is high and where relevant markets have experienced rapid growth. Once formerly state/collective-owned assets could be sold or transferred through a market, the potential was generated for wealth disparity among different households in different organizations and sectors because these entities, depending on their positions in the political and administrative hierarchy, have had unequal *de facto* property rights to these public assets prior to and during the property transformation.

Because how housing privatization and marketization have translated to greater wealth inequality between different occupational groups and organizations has been examined in other studies (He and Xia, 2012), in the present paper, we focus on how enterprise ownership restructuring and marketization contribute to the greater non-housing and total household

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<sup>3</sup> In a socialist planned economy, a good deal of production assets is not evaluated in money terms, and their prices are set by the state bureaucracy rather than by the market. It is in this sense that the well-known Hungary economist Kornai (1992, p. 131) discusses the classical socialism “a semimonetized system” in which “the role of prices is far narrower and more restricted than it is under capitalism.”

wealth disparity between different occupational groups, sectors and work organizations over time.

### 3. Enterprise Restructuring, Marketization and Wealth Inequality in Two Phases

Ownership reform and marketization have been two institutional forces shaping China's economic landscape up to today. Early ownership reform was inaugurated in rural China at the end of the 1970s. First, some property rights pertaining to land and labor were returned to the households and individuals. The Household Responsibility System guarantees farmers the use rights of the land and ownership of products after turning in a limited quota to the state and collective. Similarly, in the industrial sectors, farmers or urban residents can contract or lease small public enterprises, making private profits for themselves under a profit-sharing agreement with the state/collective. Second, farmers and urban citizens reclaimed the property rights to their own labor. Private businesses are allowed in a limited size, and owners retain all after-tax income. This type of property rights reassignment and marketization is a critical change in the relationship between the state and households/individuals. Along with the land use and labor rights changes, another type of property rights change occurred at the government level. The fiscal reform since the 1980s consisted of the reallocation of state revenues from various sources between the central government and local governments. Local governments have to rely on themselves for administrative finances but can retain most revenue under the name of "extra-budgetary revenue" within their jurisdictions (Oi, 1999).

This property rights reassignment and production/labor marketization occurred mainly in the 1980s. It created prosperous private sectors (particularly in the service and commercial sectors) and greater wealth discrepancies. However, the scale of this kind of reform in the 1980s in urban China was very small. The political atmosphere toward the private sectors was cautious and ambivalent. They were tightly curbed in certain industries and limited in size. There was limited asset transfer during this period because most public assets were contracted rather than sold to individual actors, and public ownership of state-owned enterprises (SOEs) and township and village enterprises (TVEs) was mostly maintained. Wealth accumulation was mainly based on income generation and accumulation from the newly-developed production and labor markets.

The initial reform in the 1980s led to a fast take-off of the Chinese economy, especially in the rural areas. However, from the mid-1990s, problems were faced in the development of TVEs and SOEs, with the increasing load of firm operations (Kung, 1999) and excess working labor, intensifying market competition due to the entry of new private firms

Table 1. Percentage of Industrial Output by Different Ownership

	1978	1988	1995
State-owned enterprises	78	57	34
Collective enterprises (including township and village enterprises)	22	36	37
Private and individual	0	4	13
Foreign enterprises (including Hong Kong/Taiwan/Macau-invested)	0	3	12

Source: NBS (1989, 1999).

Table 2. Percentage of Industrial Output by Different Ownership  
of Chinese Enterprises (Annual Output Value over 5 Million)

	1999	2002
State-owned or controlled corporations	49	41
Collective enterprises (including township and village enterprises)	17	9
Private and individual	4	12
Foreign enterprises (including Hong Kong/Taiwan/Macau-invested)	26	29
Joint-stock corporations	22	35
(share-cooperative ( <i>gufenhezuo</i> ))	(4)	(3)
(joint-cooperative ( <i>lianying</i> ))	(1)	(1)
(limited liability ( <i>youxianzeren</i> ))	(10)	(18)
(share-holding ( <i>gufenyouxian</i> ))	(7)	(13)

Source: NBS (2001, 2003).

since the 1980s, and harder access to production capital, such as bank loans and credit (Oi, 1999). To escape these predicaments, the central government took pains to divorce the operation of state/collective enterprises from the government bureaucracy by restructuring the ownership rights of public enterprises (*gaizhi*). Although the pace and forms of enterprise ownership restructuring varied over regions and industries due to different constraints and incentives for various local governments (Liu *et al.*, 2006), most medium and small-sized SOEs and TVEs had been partially or fully restructured or privatized in a relatively short time by the end of the 1990s (Oi and Walder, 1999; Garnaut *et al.*, 2006). Sole state or collective ownership has been transformed into increasingly variegated and complex ownership structures. Over the past decade, property rights restructuring has catalyzed the development of a burgeoning and power-gaining private sector (Tables 1 and 2).



Simultaneously, the development of a financial market is another way of helping large SOEs escape financial distress and raise more funds.<sup>4</sup> China's financial markets gestated in the 1980s before officially debuting in the early 1990s when the Shenzhen Stock Exchange was established.

The market-centered perspective asserts that political officials' private economic advantages and power should be undermined if markets function as an alternative mechanism of distributing goods and services to the socialist redistributive mechanism exercised by the state and its agents (i.e. cadres) and if ordinary workers/farmers are permitted to pursue entrepreneurial, market-oriented activities (Nee, 1989, 1991, 1992).

Nevertheless, government and cadres' active role in steering the direction of the local economy is not hard to detect because reforms of ownership structure and marketization have to be orchestrated and carried out by incumbent political institutions and bureaucrats through state laws, regulations and policies.

What is unique about China's economic reform is that local governments are the key players in SOE restructuring and privatization. Unlike their counterparts in the former Soviet Union or Eastern European countries, China's SOEs have mostly been deployed into the hands of local governments at the provincial, municipal and county level; only a few large size SOEs are directly run and supervised by the central state.<sup>5</sup>

These institutional changes offer the incumbents more latitude for economic gain. This is what Alexeev (1999) called the "incumbency advantage" during Russia's privatization. First, cadres, especially managers in public enterprises, are most likely to obtain ownership of SMEs and accumulate wealth during property rights reform (Oi and Walder, 1999). As a matter of fact, since the mid-1990s, manager buy-out has become the main channel of restructuring and privatizing public enterprises. Managers, not workers, are often given the most shares during the ownership restructuring. It is also common for governments to transfer state assets to managers at discounted prices in exchange for an agreement to minimize lay-offs and also to encourage the managers' participation in the restructuring process (Garnaut *et al.*, 2006).

Second, governments, especially those at the local level, continue to participate in economic activities, to a significant degree (Walder, 1995; Guo, 1999). This is because many resources and large state-owned corporations are still at the disposal of governments. For

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<sup>4</sup> From the property-rights centered perspective, this is also a way of transferring the government's income rights to SOEs in exchange for more funds.

<sup>5</sup> There are only 117 such enterprises listed by the State-owned Assets Supervision and Administration Commission of the State Council. See <http://www.sasac.gov.cn/n1180/n1226/n2425/index.html>, accessed on 19 July 2012.

example, the land is owned and controlled by the state. With marketization and industrialization, the value of the land has been growing rapidly, especially in the developing regions. As the real estate industry has boomed, the land-related transactions and management fees have constituted a major source of revenue for local governments (Ji, 2008). In addition, many critical production factors, such as electricity, water, steel, transportation and telecommunication, are monopolized by publicly-owned enterprises (Sargeson and Zhang, 1999). In addition, the governments can effectively control the access to certain businesses through licenses, certification and bank loans, as well as tariff maneuvers.

In sum, China's restructuring and privatization of public firms and marketization is also a process of reconsolidating public assets. It has caused a growing wealth disparity between public sectors and private sectors, and between political cadres/managers and ordinary workers, particularly since the mid-1990s. Cadres and those working in the public sectors have had opportunities to acquire public assets during the property transformation. The immediate inflation of their household/individual wealth, to a great extent, was from the appreciation of transformed state-owned assets as the real estate and financial markets developed from the mid-1990s. Therefore, we propose:

*Hypothesis 1. From the 1990s to the 2000s, the household wealth advantages for those working in state-owned organizations and for cadre households was increasing over time relative to ordinary households and those working in privately-owned organizations.*

However, from the point of view of the market-centered theory, ordinary workers who accumulated significant wealth (e.g. successful ordinary entrepreneurs) from the private sectors in the 1980s could also have greater wealth opportunities with the newly developing markets (e.g. the real estate market and the financial market), which virtually did not exist in the 1980s. The developing new markets promote a thriving private sector that is, to a great extent, out of direct state control. An alternative hypothesis could be derived as follows:

*Hypothesis 2. From the 1990s to the 2000s, the household wealth advantages for those working in state-owned work organizations and for cadre households were decreasing over time as the new markets developed relative to those working in privately-owned organizations, and ordinary households (including entrepreneur households).*

#### 4. Wealth Stratification by Differentiated Occupations, Marketization and Privatization

Most existing published studies view cadres and entrepreneurs as unitary groups assuming similar positions and power over state assets during the transformation. We

argue that these groups will become increasingly differentiated as the opportunity structure of economic gains diversifies with the post-1978 transformation. Because economic managers are those who are directly dealing with the day-to-day routines of enterprise activities and who know the enterprises best, we observe that managers have greater opportunities to obtain state-owned assets compared with political officials. Three types of managers emerged during the property transformation. The first are those who are in charge of large-size SOEs in strategic sectors that have not undergone ownership reform. These managers follow directives from their state superiors. They are still evaluated and rewarded in the same manners as political bureaucrats. The second type of manager includes those whose enterprises have already been restructured but remain under state ownership. Their opportunities to benefit from the ownership restructuring are greater, we would predict, because restructuring could not proceed smoothly without managers' cooperative participation (Liu *et al.*, 2006). The third type of managers should be called entrepreneurs (we call them ex-cadre entrepreneurs). They have obtained the controlling ownership of some former SOEs during the restructuring or privatization process. Although they have to run these enterprises without the support of the state, they should be distinguished from private entrepreneurs who start their businesses from scratch. Compared with those grassroots entrepreneurs, entrepreneurs with cadre backgrounds should have wealth advantages because they are poised to respond to policy changes faster, have better connections with former political officials, and have higher human capital (Rona-Tas, 1994; Choi and Zhou, 2001). Therefore, wethesize that in the 2000s:

*Hypothesis 3a. Total household wealth is greater for managers than for political cadres.*

*Hypothesis 3b. Managers in the restructured state-owned work organizations have greater total household wealth than those in the non-restructured state-owned work organizations.*

*Hypothesis 3c. New entrepreneurs with cadre background have greater total household wealth than those without any cadre background.*

In addition, we argue in the beginning that marketization and privatization, in combination with state politics, exert significant effects on wealth stratification. Although the sluggish growth of China's financial markets prevents most Chinese enterprises from raising more funds, the financial market has become an increasingly important source of new wealth for a myriad of organizations, agencies and individuals. The development of the financial market as well as the real estate market has added new value to former public assets.

However, the effect of enterprise privatization on wealth accumulation for different

occupations might be different than that of marketization. Within the same level of market development, the greater the extent of privatization in a formerly state-dominated sector, the less control the state has over resource allocation. This decreased the wealth advantages of lower tier cadres and government officials. Therefore, we hypothesize that in the 2000s:

*Hypothesis 4. The effect of enterprise privatization is distinct from that of the financial market on household wealth.*

### III. Data, Measures and Models

#### 1. Data

Two survey datasets, the Chinese Household Income Project conducted in 1995 and 2002 (CHIP 1995 and 2002 hereafter) in urban China, are used for this paper. Surveys were all conducted by the Economic Institute of the Chinese Social Science Academy, in collaboration with some foreign researchers. These surveys carefully asked about itemized household assets, such as housing assets, financial assets, fixed productive assets and durable goods, for each sampled household. Because the large-scale property transformation did not take place until the mid-1990s, these two datasets are appropriate for examining the wealth changes prior to and after the mid-1990s. To our knowledge, of all the public sources, these datasets are the best for studying household wealth in urban China. Many a published work has employed these datasets (Khan *et al.*, 1992; McKinley, 1996; Riskin *et al.*, 2001; Meng, 2007; Li and Zhao, 2009).

To capture the regional variations in marketization across cities, we collected aggregate local statistics on the development level of the housing and financial markets for each city/county from the 2003 provincial yearbooks (about 77 in total), and then merged this information with the individual level CHIP 2002 data above.

#### 2. Measures

To save space, we summarize the measures of all the variables in Table 3.

#### 3. Models

We use ordinary linear regressions to model the logarithm of non-housing wealth and total household wealth:<sup>6</sup>

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<sup>6</sup>To include the cases with zero non-housing wealth, we actually add 1 to non-housing wealth for all the cases, and then take the logarithm of the new value. The same procedures were applied for total household wealth.

Table 3. Measures of all the Variables Used in the Empirical Models

Variables	Descriptions
<i>Dependent variables</i>	
Non-housing wealth	All the household assets (financial assets, fixed production assets, and durable goods) except the value of homes
Total household wealth	The total value of all household assets, including value of homes, financial assets, fixed productive assets and durable goods
<i>Independent variables</i>	
Cadres (political cadres and managers)	Decision-makers or working unit leaders in different levels of government, party agencies, state/collective-owned enterprises (managers), public institutions
Manager: non-restructured	Those who work in the state-owned enterprises for which ownership has never been restructured
Manager: restructured	Those who work in the state-owned enterprises for which ownership has been restructured but still in the control of the state
Professionals	Those who have special knowledge and skills, are usually trained in schools, and may have technical certificates, including professors in universities, teachers in primary and secondary schools, doctors, nurses, lawyers and researchers
Entrepreneurs	Owners of private businesses, and individual operators ( <i>getihu</i> ) in the market sectors
Ordinary entrepreneur	Entrepreneurs who start their businesses from scratch and do not have any cadre background
Ex-cadre entrepreneur	New entrepreneurs who took the former public enterprises during the ownership restructuring
White collar worker	Those who are lower-level staff and clerks in government agencies and public institutions.
Blue collar worker	Those who are less-skilled, working in a variety of sectors and industries, such as manufacturing, agriculture, fishing, forestry, animal husbandry, transportation and social services
Types of work organizations	Six types are examined: party/government organizations, state-owned/controlled enterprises, urban collective enterprises, domestic private/individual enterprises, Sino-foreign/foreign private enterprises, and others
Marketization	Indirect measure: the timeframe 1995–2002, the later, the higher the level of marketization Direct measure: the percent of foreign investment relative to all the fixed-asset investment in each city in 2002, following Bian and Zhang (2002)
Privatization	Indirect measure: the timeframe 1995–2002, the later, the higher the level of privatization Direct measure: the percent of working labor in the private sector for each city in 2002
<i>Control variables</i>	These include age, gender (male and female dummy), number of household members, total household income, and regions (a series of dummies for each province)

$$\ln y_{it} = b_{0t} + b_{it}X_{it} + e_{it}, \quad (1)$$

where  $\ln y_{it}$  is the natural logarithm of non-housing assets and total household assets for household  $i$  at time  $t$  (1995 and 2002).  $X_{it}$  includes the core independent variables,

including occupational types (cadres and other social groups), types of work organizations/sectors, marketization and privatization, as well as control variables, including gender, age, number of household workers and household income, and province dummies.

To take into account the regional heterogeneity with regard to the impact of ownership restructuring of public assets and varying levels of housing marketization and state-owned enterprise privatization on housing disparity, we apply a two-level hierarchical model to the 2002 CHIP urban data.<sup>7</sup> The level-one model is written as:

$$\ln y_{ij} = b_{0j} + b_{ij}X_{ij} + e_{ij}, \quad (2)$$

where  $\ln y_{ij}$  is the natural log of non-housing wealth and/or total household wealth of household  $i$  in city  $j$  in 2002.  $X_{ij}$  represents a vector of independent variables, including differentiated occupational types (political cadres, managers and other social groups), different types of work organizations, as well as controlling variables (e.g. gender, age, number of household members and household income).

The level-two model can be written as:

$$b_{0j} = g_{00} + g_{kj}M_{kj} + m_{0j}, \quad (3)$$

$$b_{ij} = g_{0j} + g_{ij}M_{kj} + m_{ij}, \quad (4)$$

where  $M_{kj}$  represent the contextual variables; that is, the different levels of housing market development and the extent of state-owned enterprise privatization in each city in 2002.  $g_{ij}$  denotes the interactive effect of different levels of financial market development/enterprise privatization and the level-one independent characteristics on the non-housing and total household wealth disparity.

#### IV. Results and Findings

Table 4 presents the exponential coefficients of ordinary linear regressions of the logarithm of non-housing wealth on selected independent variables.

In 1995, cadres, professionals and white collar workers held significantly higher non-housing wealth (12–44 percent) than ordinary workers after controlling for a number of household and regional level characteristics (Models 1–2 for 1995, Table 4). In 2002, wealth advantages in non-housing assets had increased significantly for all occupations compared

<sup>7</sup> Hierarchical models are estimated using HLM software. All other models are estimated using the statistical package STATA.

Table 4. Coefficients (Exp) from Linear Regression of Non-housing Wealth (Ln) on Selected Independent Variables: Chinese Household Income Project 1995, 2002, Urban

Independent variables	1995		2002			
	Model 1	Model 2	Model 1	Model 2	Model 3	Model 4
<i>Occupations</i>						
Cadre	1.44***	1.30***	1.65***	1.42***	1.38***	1.52***
Professional	1.29***	1.16***	1.62***	1.28***	1.26***	1.43***
Entrepreneur	0.74	0.68*	2.01***	1.77***	1.80***	1.58**
White collar worker	1.16***	1.12***	1.31***	1.18***	1.21***	1.32***
Blue collar worker (reference)						
<i>Types of work organizations</i>						
Party/government organizations, public institutions	0.78	0.73*	1.67***	1.34***	1.26*	0.97
State enterprises	0.72	0.70**	1.45***	1.30***	1.16	1.14
Collective work units	0.62**	0.65**	0.99	0.96	0.88	0.70
Foreign enterprises	0.80	0.75	1.65***	1.33**	1.88***	1.14
Other enterprises	1.07	1.06	1.19*	1.08	1.03	0.99
Domestic private enterprises (reference)						
Financial marketization					1.01*	1.01***
Enterprise privatization					1.00	1.00
<i>Interactions with financial marketization/privatization</i>						
Cadre					1.00	0.99
Professional					1.00	0.99
Entrepreneur					0.99	1.00
White collar worker					1.00	0.99
Party/government organizations, public institutions					1.00	1.01
State enterprises					1.01	1.00
Collective work units					1.01	1.01
Foreign enterprises					0.98*	1.01
Other enterprises					1.00	1.00
$R^2$	0.15	0.25	0.13	0.21	0.19	0.19
$N$	5798	5798	5832	5832	5832	5832

Source: China Household Income Project 1995, 2002, urban. These datasets are open to the public at <http://dx.doi.org/10.3886/ICPSR03012> and <http://dx.doi.org/10.3886/ICPSR21741>.

Notes: \* $p < 0.1$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$  (two-tailed test). Significance levels are based on robust standard errors (not reported due to space constraints). Models 1 and 2 for 1995 and 2002 include the province dummies. Control variables gender, age, age square, household size and household income are also included in Model 2 for 1995, and Models 2–4 for 2002. Coefficient estimations for the control variables are not reported.

with blue collar workers. The increase in non-housing assets for entrepreneurs is especially impressive from the mid-1990s to the 2000s. In 1995, entrepreneurs' non-housing assets were 32 percent (Model 2 for 1995, Table 4) lower than ordinary workers, but their advantages in non-housing assets significantly surpassed cadres by 2002 (77 vs 42 percent, Model 2 for 2002, Table 4). Decomposing the non-housing assets reveals that entrepreneurs' fixed production assets rose most spectacularly from 1995 to 2002.<sup>8</sup> Interestingly, the influence of different types of work organizations on non-housing wealth changed. In 1995, those in the state-owned (party/government organization, public institutions and state enterprises) organizations were disadvantaged. In 2002, the same group held a significant advantage over those in the domestic private enterprises (Model 2 for 1995 and 2002, Table 4). This is consistent with the hypothesis that those working in the public sectors have more opportunities to obtain state assets during the property rights transformation of public enterprises.

In the differential analyses in Table 5, we distinguish economic managers from political cadres, and entrepreneurs with cadre backgrounds from ordinary entrepreneurs, and incorporate the direct measures of financial marketization and enterprises privatization. We find that in 2002, ordinary entrepreneurs had the greatest non-housing wealth (90–134 percent higher than ordinary workers, Models 1–5 in Table 5). Political cadres, managers in the restructured public enterprises and ex-cadre entrepreneurs also had large non-housing assets, but their advantages were not as large as ordinary entrepreneurs'. Non-housing wealth advantages were significant for managers in non-restructured public enterprises, professionals and white collar workers compared with ordinary workers, but these advantages were lower than for the other three groups mentioned above (Models 1–3 in Table 5). Similar to the findings from Table 4, those in the public sector had a more than 30-percent non-housing wealth advantage over those in the domestic private sectors in 2002 (Models 1–3 in Table 5).

However, examining the interaction terms in Models 4 and 5 of Table 5 reveals that with financial marketization, there were no significant differences in growth potential for non-housing property across different occupational groups, with two exceptions. First, with the rise of financial marketization, ordinary workers' non-housing wealth actually grew a little faster than that of ordinary entrepreneurs. Second, with the spread of enterprise privatization, ex-cadres' non-housing wealth grew faster than that of ordinary blue collar workers. This suggests that marketization and

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<sup>8</sup> Results are not shown here but are available upon request.



Table 5. Restricted Maximum Likelihood Estimates (Exp) of Multilevel Models of Non-housing Wealth (Ln) on Differentiated Occupations, Marketization and Privatization: Chinese Household Income Project 2002, Urban

Independent variables	Model 1	Model 2	Model 3	Model 4	Model 5
<i>Occupations</i>					
Political cadre	1.40***	1.41***	1.41***	1.45***	1.62***
Manager: non-restructured	1.28**	1.28**	1.28***	1.28*	1.22
Manager: restructured	1.54***	1.55***	1.55***	1.42***	1.43**
Professional	1.27***	1.27***	1.27***	1.32***	1.34**
Ordinary entrepreneur	1.90***	1.90***	1.90***	2.24***	2.34***
Ex-cadre entrepreneur	1.43***	1.43***	1.43***	1.39	0.83
White collar worker	1.18***	1.18***	1.18***	1.26***	1.27**
<i>Types of work organizations</i>					
Party/government organization, public institutions	1.33***	1.34***	1.35***	1.44**	1.37
State enterprises	1.32***	1.33***	1.33***	1.33*	1.57*
Collective work units	0.97	0.97	0.97	0.95	0.87
Foreign enterprises	1.39**	1.40**	1.40**	1.55**	0.95
Other enterprises	1.14	1.15***	1.15***	1.21	1.29
Financial marketization		1.01***	1.01***	1.01**	1.01***
Enterprise privatization			1.00	1.00	1.00
<i>Interactions with financial marketization/privatization</i>					
Political cadre				1.00	0.99
Manager: non-restructured				1.00	1.00
Manager: restructured				1.01	1.00
Professional				1.00	1.00
Ordinary entrepreneur				0.99*	0.99
Ex-cadre entrepreneur				1.00	1.02**
White collar worker				1.00	1.00
Party/government organizations, public institutions				0.99	1.00
State enterprises				1.00	0.99
Collective work units				1.00	1.01
Foreign enterprises				0.99	1.01
Other enterprises				1.00	1.00
<i>N</i>	5832	5832	5832	5832	5832
-2Log-likelihood	19 924.12	19 926.04	19 937.24	19 955.54	19 954.22

Source: China Household Income Project 2002, Urban. These datasets are open to the public at <http://dx.doi.org/10.3886/ICPSR03012> and <http://dx.doi.org/10.3886/ICPSR21741>.

Notes: \* $p < 0.1$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$  (two-tailed test). Significance levels are based on robust standard errors (not reported due to space constraints). All the models include the control variables gender, age, age squared, household size and household income. Coefficient estimations for the control variables are not reported.

enterprise privatization have distinct impacts on the wealth opportunities for these two types of entrepreneurs: ordinary entrepreneurs have no significant increase in non-housing wealth with the penetration of financial marketization, whereas ex-cadre entrepreneurs have greater growth in non-housing wealth with the spread of enterprise privatization.

Table 6 reports the exponential coefficients of ordinary linear regressions of the logarithm of total household wealth on the selected independent variables. We find that cadres had the highest total household wealth in 1995. In Models 1 and 2 for 1995, cadres, professionals and white collar workers all had significantly (10–27 percent according to Model 2 for 1995) higher total household wealth than blue collar workers, even after controlling for household characteristics and regional variations at the provincial level. Entrepreneurs' advantages were not statistically significant due to the small number of cases in 1995 because only a few urban citizens had private businesses back then. This suggests that cadres, professionals and white collar workers had assumed absolute wealth advantages over ordinary workers by the middle of the 1990s. In 2002, the advantages in total household wealth for all the occupations had risen significantly compared with ordinary blue collar workers. As of 2002, cadres still have a high wealth advantage (35 percent, Model 2 for 2002), controlling for household and regional variations. However, entrepreneurs' advantages in household wealth grew and now slightly exceeded that of cadres (40 vs 35 percent, Model 2 for 2002), although a Wald test shows that cadres and entrepreneurs' wealth do not differ statistically at the 0.05 level. Similar to the findings on the non-housing wealth in Table 4, those working for domestic private enterprises seemed to do well in terms of total household wealth in 1995. Their household wealth was 34–39 percent higher than that for those in other types of work organizations (Model 2 for 1995). In 2002, however, those working in a party/government organization or public institution and those in state-owned enterprises did significantly better (16–21-percent higher) than those in the domestic private sector (Models 1 and 2 for 2002) when household-level characteristics and province-level variations are controlled for. This suggests that from the mid-1990s to 2002, those working in the state-owned sectors had gained disproportional wealth during the housing privatization and ownership restructuring of state-owned work organizations compared to those in the private sector. This supports Hypothesis 1 but conflicts with Hypothesis 2.

In Model 4 for 2002, where levels of financial marketization, enterprise privatization and their interaction terms with occupations and work organizations are added, we find that the total household wealth advantage of those working in the state-owned enterprises and other enterprises increased faster than those in the domestic private

Table 6. Coefficients (Exp) from Linear Regression of Total Household Wealth (Ln) on Selected Independent Variables: Chinese Household Income Project 1995, 2002, Urban

Independent variables	1995		2002			
	Model 1	Model 2	Model 1	Model 2	Model 3	Model 4
Cadre	1.44***	1.27***	1.60***	1.35***	1.39***	1.55***
Professional	1.21***	1.10***	1.54***	1.26***	1.27***	1.46***
Entrepreneur	0.80	0.72	1.58***	1.40***	1.48***	1.55**
White collar worker	1.21***	1.18***	1.33***	1.22***	1.31***	1.30***
Blue collar worker (reference)						
Party/government organizations, public institutions	0.68	0.65*	1.49***	1.21***	1.13	1.16
State enterprises	0.63*	0.61**	1.32***	1.16**	1.04	1.19
Collective work units	0.63*	0.66*	1.03	0.98	1.03	1.12
Foreign enterprises	0.68	0.64*	1.36**	1.13	1.32	0.98
Other enterprises	1.11	1.08	1.10	0.99	0.88	1.00
Domestic private enterprises (reference)						
Financial marketization					1.00	1.01***
Enterprise privatization					1.00***	1.01
<i>Interactions with financial marketization/privatization</i>						
Cadre					1.00	0.99*
Professional					1.00	0.99**
Entrepreneur					1.00	1.00
White collar worker					0.99**	1.00
Party/government organizations, public institutions					1.00	1.00
State enterprises					1.01**	1.00
Collective work units					1.00	1.00
Foreign enterprises					0.99	1.01
Other enterprises					1.01**	1.00
$R^2$	0.11	0.17	0.12	0.22	0.21	0.20
$N$	5806	5806	5832	5832	5832	5832

Source: China Household Income Project 1995, 2002, Urban. These datasets are open to the public at <http://dx.doi.org/10.3886/ICPSR03012> and <http://dx.doi.org/10.3886/ICPSR21741>.

Notes: \* $p < 0.1$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$  (two-tailed test). Significance levels are based on robust standard errors (not reported due to space constraints). Models 1 and 2 for 1995 and 2002 include the province dummies. Control variables gender, age, age squared, household size and household income are also included in Model 2 for 1995, and Models 2–4 for 2002. Coefficient estimations for the control variables are not reported.

enterprises, whereas white collar workers' advantage decreased more quickly than ordinary workers' with the development of financial markets. However, with the spread

of enterprise privatization, cadres' wealth advantages seemed to decline compared with those of ordinary blue collar workers (Model 4 for 2002). In addition, we find that the financial market development and the pace of enterprise privatization have independent influences on wealth accumulation, and the effects of both marketization and privatization may differ if we examine their interactions with different occupations and work organizations (Models 3 and 4 for 2002). For instance, we find that there were no significant interaction effects on wealth between cadres/professionals and financial marketization (Model 3), but the rapid enterprise privatization might facilitate the growth of ordinary workers' wealth more than that of cadres or professionals (Model 4). This implies that slow enterprise privatization might benefit cadres and professionals more than fast privatization.

Table 7 summarizes the exponential coefficients of multi-level models of the logarithm of total household wealth by occupation, different levels of financial marketization as well as extent of enterprise privatization. We find that there were no statistical differences in household wealth between political cadres and managers, between managers in the restructured state-owned enterprises and those in the non-restructured state-owned enterprises, and between ordinary entrepreneurs and ex-cadre entrepreneurs,<sup>9</sup> although ordinary entrepreneurs seemed to hold the greatest wealth advantage (45 percent) if we only compare the absolute magnitude of coefficients of each occupation (Models 1–3 in Table 7). These results are not consistent with Hypothesis 3. We find that marketization exercises significantly positive effects on wealth accumulation even when controlling for the level of enterprise privatization.<sup>10</sup> This confirms the large wealth disparity due to the regional variations in market development.

Do wealth differences across different occupations remain significant with the development of financial markets and the spread of enterprise privatization? It is a little surprising to find that in Model 4, household wealth for managers in the non-restructured public enterprises and for white collar workers decreased slightly with the penetration of financial markets compared with ordinary blue collar workers. Wealth advantages for other social groups were not statistically significant as financial markets developed. Nevertheless, household wealth for those working in state-owned enterprises seemed to grow faster with the financial marketization than that

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<sup>9</sup> These tests are conducted by setting different reference groups using HLM software.

<sup>10</sup> A separate analysis (results not shown here) finds that the extent of privatization would have significantly positive effects on total household wealth if only privatization were included in Model 3. This suggests that the significance of privatization is mitigated by the effect of marketization because these two institutional changes are positively related ( $r = 0.1$ , significant at the  $<0.001$  level).

Table 7. Restricted Maximum Likelihood Estimates (Exp) of Multilevel Models of Total Household Wealth (Ln) On Occupations, Marketization and Privatization: Chinese Household Income Project 2002, Urban

Independent Variables	Model 1	Model 2	Model 3	Model 4	Model 5
<i>Occupations</i>					
Political cadre	1.33***	1.34***	1.34***	1.40***	1.51**
Manager: non-restructured	1.41***	1.41***	1.41***	1.57***	1.69**
Manager: restructured	1.41***	1.42**	1.42**	1.31**	1.46***
Professional	1.24***	1.24***	1.24***	1.30***	1.32***
Ordinary entrepreneur	1.45***	1.45***	1.45***	1.49***	1.57*
Ex-cadre entrepreneur	1.23	1.23	1.24	1.40**	0.95
White collar worker	1.23***	1.23***	1.23***	1.35***	1.25**
<i>Types of work organizations</i>					
Party/government organizations, public institutions	1.21**	1.22**	1.23**	1.14	1.23
State enterprises	1.17*	1.17**	1.18**	1.06	1.27
Collective work units	0.99	0.99	1.00	0.97	1.18
Foreign enterprises	1.11	1.11	1.12	1.21	0.91
Other enterprises	1.01	1.01	0.98	0.93	0.98
Financial marketization		1.01***	1.01***	1.01*	1.01***
Enterprise privatization			1.01	1.00	1.01
<i>Interactions with financial marketization/privatization</i>					
Political cadre				1.00*	1.00
Manager: non-restructured				0.99**	0.99
Manager: restructured				1.01	1.00
Professional				1.00*	1.00
Ordinary entrepreneur				1.09	1.00
Ex-cadre entrepreneur				0.99	1.01
White collar worker				0.99***	1.00
Party/government organizations, public institutions				1.00	0.91
State enterprises				1.01**	0.90
Collective work units				1.00	0.99
Foreign enterprises				0.99	0.93
Other enterprises				1.01	0.86
<i>N</i>	5832	5832	5832	5832	5832
-2Log-likelihood	17 345.52	17 344.48	17 353.94	17 370.64	17 373.54

Source: China Household Income Project 2002, Urban. These datasets are open to the public at <http://dx.doi.org/10.3886/ICPSR03012> and <http://dx.doi.org/10.3886/ICPSR21741>.

Notes: \* $p < 0.1$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$  (two-tailed test). Significance levels are based on robust standard errors (not reported due to space constraints). All the models include the control variables gender, age, age squared, household size and household income. Coefficient estimations for the control variables are not reported.

for people in the private sector. However, the effects of different occupations and work organizations on wealth accumulation were not very significant with the continued privatization of public enterprises (Model 5).

## V. Conclusions and Discussion

In this paper, we have examined the disparity in total household wealth and non-housing wealth across different occupational groups and work organizations over time. We argue that ownership restructuring of public enterprises and newly developing real estate and financial markets offer various social groups different opportunities to accumulate household wealth. The widening wealth disparity in urban China, intentionally or inadvertently, as we attempt to demonstrate, is closely related to the structural changes in property rights, and also the emergence of new market institutions. Studying the institutional backdrop of public enterprise restructuring enriches our understanding of wealth inequality generating processes and the changing dynamics of China's socioeconomic stratification.

Unlike most of the former Soviet Union countries, China's privatization has been piecemeal and experimental, and mainly concentrated on the medium and small-sized public enterprises. First, large-sized, highly capital-intensive, and politically and economically strategic state organizations and sectors remain tightly controlled and managed by the state. Second, property rights and market reform are choreographed and exercised by the incumbents in an array of party-government organizations and enterprises. Therefore, it is safe to claim that the enterprise privatization in China, like in other transitional economies, is cadre-friendly. We find significant wealth advantages assumed by cadres (whether political cadres or managers in public enterprises), and such advantages have remained with the onset of new financial markets and market penetration since the mid-1990s. This is not only because rent-seeking opportunities for cadres are widely available or because they were able to rig the process of property transformation, but also because cadres, as the decision-makers and direct participants in the economic and industrial development, could gain disproportionately due to their strategic positions or higher political capital. Ordinary workers become the biggest losers during this process. These findings are consistent with the arguments made by those holding the property-centered and market-state interaction perspectives and also with our own property transformation theory.

We also find a dramatic increase in total household wealth, especially in non-housing assets for entrepreneurs. In fact, entrepreneurs' non-housing and total household assets have reached or even surpassed cadres'. In addition, by 2002, grass-root entrepreneurs

who started their businesses from scratch seem to have accumulated greater household wealth and non-housing assets than ex-cadre entrepreneurs. This suggests that ordinary entrepreneurs could also take advantage of the opportunities during the ownership restructuring and marketization. These findings are more supportive of the market-centered perspective than state-centered approaches.<sup>11</sup>

The wealth stratification of the different types of work organizations underwent a dramatic change from 1995 to 2002. In the middle of the 1990s, those in the domestic private sectors seemed to do much better than those in the public sectors (party/government organization and state enterprises). By 2002, the situation had been reversed. There is sufficient evidence that those working in the public sectors fared much better than those in the domestic private sector, both in non-housing wealth and total household wealth in 2002. This backs the theme of our property transformation perspective that those in the public sectors have had better opportunities for wealth accumulation through housing privatization and ownership restructuring of public enterprises.

In addition, we find there is no sufficient evidence to claim political cadres' total household wealth is significantly different from economic managers, nor is it certain whether ownership restructuring of public enterprises granted incumbent or former managers more opportunities to seize state property as of 2002. These findings are also not predicted by our property transformation perspective. We speculate that China's ownership restructuring started with those problematic enterprises that were actually loss-making or underperforming. The CHIP 2002 urban data actually shows that most (more than 70 percent) of the restructured enterprises were making little profit, relied on loans or were even close to bankruptcy. Gaining private wealth from those unprofitable assets might be not as easy as obtaining a public house. Second, large-scale ownership restructuring and privatization of public enterprises did not occur until 1998. In addition, the financial market played an insignificant role in China's economy in the early 2000s. We examined the wealth distribution across different social groups and work organizations/sectors in 2002, only 3 years after the watershed year. Since 2002, a good number of private enterprises, especially in the information and technology and real estate industries, have carried out initial public offerings in the domestic and international financial markets, which may shift the changes in wealth inequality predicted by our property transformation perspective. More recent data is needed to examine the wealth stratification and our

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<sup>11</sup> Some research from the state-centered perspective also determines significant income advantages for rural entrepreneurs. See for example, Walder (2002, 2008).

theoretical framework over the past decade. We expect wealth stratification across differentiated social groups will become more salient as the property transformation moves forward.

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