

# State Regulation in Income Distribution in Urban Areas during the Transitional Period

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本研究透过职业阶层、教育与政治资本三个重要因素，侧重分析了市场化改革过程中国家力量对劳动力市场中收入分配的影响。在国家规制影响较大的劳动力市场部门，职业阶层间收入差距较小；人力资本回报的提高受国家改革计划的影响明显。而在新生的市场经济部门，不仅阶层间收入不平等扩展迅速，而且体力劳动者的市场境遇也大大低于国有部门和集体部门。由于更多地受国家政治过程的影响，政治资本对改革后新生代劳动力的工资收益的影响呈现出随进入劳动力市场的时间而快速下降的态势。

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## I. Background of This Research

The introduction of the market economic factor into the economic system of socialist countries and the growth of this factor have given rise to a series of important theoretical issues and triggered a “market transition debate” (MTD). The man who provoked this debate is Victor Nee, who, based on his investigations in the countryside of Fujian Province in East China, put forward a series of theoretical hypotheses about market transition and changes in the social stratifying mechanism. In his opinion, during the market transition the marketing ability of direct producers will gradually replace redistribution power and become the main profit earning mechanism in the marketization process; as a result, the role of redistribution power and political capital will fall and direct producers will be the main beneficiaries. In the debate that followed arose a series of com-

petitive hypotheses and different theoretical orientations produced widely divergent empirical research conclusions. Many scholars have realized the crux of the matter: studies on changes in the social stratifying mechanism should start with the concrete social process and cannot be restricted to this or that analytical framework or normal paradigm.

This debate centered round “redistribution power.” It overlooked the possible negative results of the marketization itself – the growth of inequalities within the market and the rapid comparative decline of the “direct producers” in market sectors – and ignored some important problems that should have received attention.

Firstly, the concept of “redistribution power” has two levels of meaning: first, the power delegated by the former redistribution system; second, the power enjoyed by government departments and state-owned/

collective economic sectors during the market-oriented reform. Both sides to the debate did not strictly distinguish between the two levels. In fact, with the deepening of the marketizing process, the former “redistribution” departments like the state-owned and collective enterprises have found a place, to various degrees, in the field of the market economy while social organizations, including government departments, have all come under the impact of market principles and their form of power is somewhere in the continuity from redistribution to market;<sup>1</sup> the empirical facts of “redistribution power” listed in the dispute are, to a large extent, only an admixture with market power.

Secondly, when Victor Nee introduced the theory of human capital into studies on changes in the social stratification mechanism in China he took the unified, balanced and fully competitive labor market as a reference frame. But he seemed not to take into account the various forces capable of changing the nature and structure of the labor market in China in the rapid modernization drive and the changing social reform process, for instance institutional factors, administrative intervention and the almost inexhaustible “surplus” rural labor. As a matter of fact, these factors have produced an effect on the model of human capital return in the labor market that should by no means be overlooked.

Thirdly, the proposition of “political capital return” seems to leave more leeway for discussion. In agreement with the social stratifying mechanism in all other countries, social resources and opportunities are also distributed according to people’s occupa-

tional positions in socialist countries. Wage scales and benefits and earnings in kind or money for individuals are determined not according to whether they are Party members but according to their jobs, posts or positions. Although a lot of studies indicate that the acquisition of positions is related to Party member status most of the studies on political capital return do not distinguish between the effects of the two and therefore attribute, wholly or partly, the variance that should have been explained by the variable of “occupational stratum” to the variable of “Party member status.”

Most importantly, both sides to the dispute overlooked the changing process of political life that is more closely related to the variable of “political capital.” The social transformation in China since 1976 has involved a social transition from a politicized society to an economy-led society and the social stratification has changed from political to economic stratification.<sup>2</sup> This means that the effect of political capital on resources distribution and other aspects of social life began to change before the marketization process was triggered. Changes in the effect on political capital return are not necessarily correlated to the marketization process. Moreover, even if they are correlated, to some extent, to each other, we need to take into consideration the fact that the reform towards marketization is carried out under the guidance of state power. The political restructuring promoted by the state in order to promote the building of political power during the market transition has a more direct bearing on the effects of “political capital.” We therefore have reason to believe

the effects of “political capital” are more likely to follow the course of changes in political life in the whole country, and do not simply cling to the marketization process.

## II. State Regulation in the Marketization Process

The viewpoints of this paper are as follows: “marketization” has been one of the important processes in the social changes since the initiation of reform in China, but it is not an isolated and “omnipotent” force for social change; the impact of the market economy on social process, social stratum structure and the stratification mechanism has also depended on the political process within society, the model of relations among the forces of different social strata and the role of state power.

First of all, the state-led marketization reform is a political and economic process with the state as a key player and its main objective is to use the market economy model to transform the original economic growth structure and economic development model so as to build up national economic strength and comprehensive competitiveness and raise the national standard of living. “State-led” means that the market-oriented reform process is in the hands of the state and the major plans of social and economic reform are all made after taking stock of the situation and in accordance with long-term national interests, embracing many important principles of national interests for which the market cannot provide a replacement. A market economy follows mainly market laws, but the impact of the market economy and

marketizing process on people’s social, cultural and political life and social interest relations is logically under the control and regulation of the state.

Next, the essence of market principles is competition rather than protection and they stress efficiency rather than fairness. The marketization process may therefore result in a lot of social injustice – it is here that state regulation is needed.

Karl Polanyi once said there is “no market road to a market economy.” In order to “avoid the ”getting drowned “inherent in the self-regulating market” the development of the market economy in the West has always been accompanied by the introduction of protective social measures to counter the market forces. The history of market economy development in Europe and America shows that a completely self-regulating market would eventually lead to recession and turmoil and that a bigger “cake” would only go bad. Without the self-protection of the social community, the logic of the market would turn all of us and our social relations into commodities. In this sense, “state regulation” serves as a guarantee for realizing the established objective in the marketization process: ensuring the stable and orderly operation of the whole society and preventing social rupture, or generating a new mechanism of social fusion where social rupture occurs.

Then, how does the state-led marketization process influence the changes in the structure and mechanism of social stratification?

The market as an economic model was chosen in China because, first of all, it could

effectively solve the bottlenecks in the economic process at that time such as lack of incentives and low efficiency. But the model for sharing the fruits of economic growth is a social institutional arrangement, a result of interactions of the three forces – the state, social strata and market transactions. The influence of social strata on the social model of distribution is expressed as relations of power operation inside the society, including the power transactions in the market. This means that power does not rashly give up its basic claims on resources, opportunities and living conditions just because it is labelled “redistribution” or “market.” While regulating the market economy and society, the state may restrict and influence the above power relations with the aid of ideological orientation, administrative mechanisms, policy making and the inertia of established social institutions.

On the basis of the above line of thinking, this paper will focus on tests of the following three research hypotheses.

Hypothesis 1: The income gap among different strata widens as the degree of marketization increases, while state regulation has a considerable restraining effect on income gaps in the labor market.

1.1 In the newly emerging market economic sector, along with industrial upgrading, the expansion of the size of enterprises and increasing maturity in their business administration, management and technology become more and more important in the private economic sector (including foreign-funded enterprises) and pay for people in management and technological positions rapidly increases.

1.2 In the private economic sector, in view of changes in the labor market structure and the excessive supply of surplus rural labor manual workers (or “direct producers” as Nee calls them) get much less pay than in the early days of marketization.

1.3 In the state-owned, collective and public sectors and government departments, under the protective regulation of the state (mainly for manual workers) the income gaps among occupational strata are smaller and changing more slowly.

In the first place, in the newly emerging market economic sector, wages for labor fluctuate with the conditions in the labor market.

Before the 1990s, the employment of workers in the urban areas of China had to be carried out through work units under the planned economy model. The migration of labor was severely restricted by various factors such as work units and the residence registration system with the private economic sector having an insufficient supply of labor. The situation changed drastically after the publication of remarks made by Deng Xiaoping during his inspection tour of South China in 1991 and 1992; millions upon millions of surplus rural laborers flowed into the cities in an endless stream (the so-called “tide of migrant laborers”), providing sufficient cheap labor for the rapid progress of the private economic sector. In almost the same period, the incessant reforms in state-owned and collective enterprises, especially the reform of state-owned enterprises that began around 1994 and was characterized by optimization of grouping and enterprise restructuring, almost totally broke the mo-

nopoly of labor resources by the state-owned sector. In the period from 1998 to 2003, the number of state-owned enterprises and state-owned holding enterprises dropped from 238,000 to 150,000, by 40%, and cumulative number of laid-off workers over the six years reached 30.90 million.<sup>3</sup> The over-supply of labor brought down the relative income of manual workers in the private economic sector.

However, the situation is somewhat different in the labor market subject to state regulation. When the average income outside the official structure rises by a large margin the government can increase the wages of those inside the official structure by means of expanding the fiscal budget in order to keep an overall income balance in the labor market. On the other hand, as a residue of the past state regulation measures, the model of egalitarian distribution continues to play its part and the old practice that wages are permitted to rise but not to fall still prevails, helping protect the wage income of manual workers inside the official structure.

Hypothesis 2: Market competition serves as the basic source for the rise in returns to human capital but in the parts of the labor market with strong state regulation the rise in returns to human capital hinges more on policy readjustments.

In the opinion of the author, the administrative mechanism for raising the returns to human capital functions only when the “planning opportunity” appears. While the government has been guiding market-oriented economic reform, the human capital under government regulation has been gradu-

ally affected by the ever-deepening market competition. The multifarious forms of enterprise reform such as buying out length of service and enterprises going into bankruptcy and merger have removed batch after batch of older, technically less capable workers and staff from the official labor market, giving the restructured enterprises an opportunity to construct a new income distribution mechanism. And the timing of the appearance of these new “planning opportunities” has been chosen in accordance with the progress of the market-oriented reform promoted by the state.

As a matter of fact, while the low-level labor markets in urban areas were gradually unified under the continuous pounding of the “tide of migrant laborers” and “laying-off and unemployment,” two important changes took place in the high-end labor market: the reform of government departments and the setting up of human resource markets. The extensive building up of the market for talent brought order into the competition in the high-end labor market and the price of talent also became clearer, providing relatively distinct information for the labor market under state regulation. Since the introduction of reform and opening-up, the Chinese government has carried out five large-scale reforms of government departments and taken a series of supplementary measures in the reform of the cadre and personnel system. By June 2002, 1.15 million cadres and employees had been culled from the Party and government departments at all levels from the central authorities down to townships and towns. By adopting a sweeping approach to reducing redundant personnel and enforcing

new wage scales human capital returns in government departments quickly achieved equilibrium with those in the external market.

Hypothesis 3: State regulation not only plays its role in direct intervention in the labor market, but also produces effects on socio-economic life by maintaining a conceptual or ideological orientation, thus changing the assessment in the labor market of some special factors (for example, political capital).

After the smashing of the “Gang of Four” in 1976 and the shift of focal point in the work of the Party Central Committee to economic construction in 1978, great changes took place in the atmosphere of political and social life in China, marking, as Professor Li Qiang said, a shift from political stratification to economic stratification. In times with political stratification as the dominant principle, the distribution of better occupational positions and career paths was directly related to political status, class background and political creed. After the launching of reform and opening-up, the assessment criteria in employment and promotion began to shift, signifying that the effect of the returns to political capital for those who joined the army of workers after this point in time has gradually fallen over time and has fluctuated with the changes in the political climate.

The specific mechanism might be deduced as follows:

(1) With the politicized society left behind and reform and opening-up ushered in, all sorts of recruiting units have gradually given up the former politically oriented criteria (political status, family background, etc.)

for employment and given more emphasis to non-political criteria like educational background in their recruitment of new employees, with political capital becoming less and less important for acquiring one's first position.

(2) With the politicized society left behind and reform and opening-up ushered in, political considerations have been gradually relegated to a secondary place and non-political factors like education and knowledge have received great attention in career advancement within social and economic organizations, with political capital becoming less important in individuals' career progression.

(3) Since individuals' first jobs are of utmost importance for their careers, the occupational assessment criteria in the labor market when individuals seek their first job may exert a significant influence over their life journeys and have a direct bearing on their career progression.

As a result, we can arrive at this deductive hypothesis: because of a change in the orientation of state regulation over social, economic and political life throughout the country, the returns to political capital in the future labor market for those who entered the labor market after the beginning of reform will gradually decline over time.

### III. Findings and Analyses

This paper chooses data from the national urban sample surveys at five points of time after the reform began in the cities in China (1988, 1995, 1996, 2000 and 2003) in order to draw an outline of the changes in

wage earnings in the labor market. The data for 1988 and 1995 are from the individual urban samples of the two surveys of “The Income Distribution of Chinese Residents” jointly conducted by Zhao Renwei and Li Shi from the Institute of Economics under the Chinese Academy of Social Sciences and the foreign scholars Keith Griffin and Carl Riskin (CHIP88 and CHIP95); the data for 1996 is from the joint studies by Professor Li Qiang from Renmin University of China, Donald Treiman and Andrew Walder, with the urban samples being selected for the purpose of analysis; the data for 2000 is from the “Survey of Ten Cities,” one of the major

projects supported by the National Social Sciences Fund during the Ninth Five-year Plan, presided over by Professor Zheng Hangsheng from Renmin University of China; and the data for 2003 are from the Chinese General Social Survey conducted jointly by the Survey Research Centre of Hong Kong University of Science and Technology and the Department of Sociology of Renmin University of China (CGSS2003).

### 1. Basic model

The analyses of the data at the five points of time in this study take the following OLS (ordinary least square) model (Equation 1a) as the basic model:

$$\begin{aligned} \ln(Y_{it}) = & \alpha + \beta_{i1}S_{it} + \beta_{i2}W_{it} + \beta_{i3}W_{it}^2 + \beta_{i4}Female_{it} + \beta_{i5}Party_{it} \\ & + \sum_{k=1}^3 \beta_{ik}Occ_{ik} + \sum_{l=1}^4 \beta_{il}Sect_{il} + \varepsilon_{it} \end{aligned} \quad (\text{Equation 1a})$$

In Equation 1a,  $t$  indicates different point of time of data,  $i$  indicates sample individual in the investigation at different point of time.  $\ln(Y)$  is the natural logarithm of monthly income.  $S$  is number of years of schooling,  $W$  is length of service (= age – number of years of schooling – 7) and  $W^2$  is the square of length of service / 100. These are three Mincer equation variables.  $Female$  and  $Party$  are two dummy variables, indicating respectively sex (female = 1) and Party member status (Party member = 1);  $Occ_k$  represents dummy variables of three occupational strata (occupations are divided into four strata: supervisory staff, technical personnel, clerical workers and manual workers with the last as the reference stratum);  $Sect_l$  represents dummy variables of four sectors of the labor market. The labor market is divided

into five sectors: the Party and government departments and organizations, public institutions, state-owned enterprises, collective enterprises and the private economy. All those employed by individual proprietors, Sino-foreign joint ventures, co-production, solely foreign-owned or foreign-funded enterprises are classified in the private economic sector. In the model the private economic sector serves as the reference.

Since Equation 1a may be rendered into the following general form:

$$\ln(Y) = \beta X + \varepsilon \quad (\text{Equation 1b})$$

Therefore, the OLS model with comparisons of points of time is as follows:

$$\ln(Y_j) = \beta_j^* X_j + \delta_j T_j X_j + \varepsilon_j \quad (\text{Equation 2})$$

$\beta_j^*$  indicates the effect coefficient matrix of the benchmark year (the two benchmark years in the two comparisons are 1988 and 1996 respectively);

$T_j X_j$  represents the cross effect of dummy variables of comparison years ( $T_{t=1995} = 1, for : j = 1; T_{t=2003} = 1, for : j = 2$ ) and the vector matrix  $X_j$  while  $\delta_j$  is the effect change matrix of comparison years in relation to the benchmark year.

## 2. Income gap among social strata

$$\ln(Y) = \beta^\vee X^\vee + \sum_{i=1}^3 \gamma_m M_m + \sum_{i=1}^3 \lambda_m P_m + \phi Clerk \quad (\text{Equation 3})$$

We examine with Equation 3 the income gap among social strata in different sectors at various points of time.  $X^\vee$  is the vector matrix of all the independent variables except “occupational stratum” in Equation 1a;  $M_m$  and  $P_m$  represent respectively supervisory staff and specialized technical personnel (dummy variables) in different sectors; clerks are not investigated cross sectors.

The results of the model indicated that in the labor market in 1988 the income of specialized technical personnel was 11.85% ( $\approx e^{112} - 1$ ) and 5% ( $\approx e^{0492} - 1$ ) higher than that of manual workers in the Party and government departments, public institutions, state-owned and collective enterprises while in the private-owned economic sector the income of specialized technical personnel was lower than that of manual workers [only 61.5% ( $\approx e^{-486}$ ) of manual workers' income]. But the latter situation rapidly changed: in the labor market, the ratio of the income of specialized technical personnel to that of manual workers increased by 140%

( $\approx e^{887} - 1$ ) in 1995 over 1988 in the private-owned economic sector while the figure was only 6.5% in the Party and government departments, and not statistically significant. In state-owned and collective enterprises, the figure was 11%. The relative income of specialized technical personnel was slightly lower in 2003 than in 1996 in the labor market sectors under strong state regulation but the figure was 77% ( $\approx e^{573} - 1$ ) higher in the privately owned economic sector.

The income gap between supervisory staff and manual workers across the sectors was similar to that between specialized technical personnel and manual workers. It can be concluded that the income gap between supervisory staff and manual workers was obviously much bigger in the privately owned economic sector than in the Party and government departments, public institutions and state-owned and collective enterprises, and the gap was widening at a greater pace. Take the labor market in 2003 for example: the income gap between supervisory staff and manual workers was 2.07 times in the privately-owned economic sector and was 75% ( $p < 0.01$ ) higher than that between supervisory staff and manual workers in the Party and government departments, public institutions and state-owned and collective enterprises. The relative income gap between supervisory staff and manual workers in the privately-owned economic sector widened by 54% ( $\approx e^{433} - 1$ ) in 2003 compared to that in 1996, while the figure was 6 ~ 7% in Party and government departments, public institutions and state-owned and collective enterprises and was not statistically



significant.

We can gain the following basic empirical understanding from the above analysis: in the years from 1988 to 2003 the income gap between occupational strata in the whole labor market became increasingly wide, especially in the privately owned economic sector, while the manual workers still remaining in the state-owned and collective sector under strong state regulation received more protection.

### 3. Variance in the rate of return to education in different sectors

$$\ln(Y) = \beta^v X^v + \sum_{i=1}^5 \gamma_i S_i \quad (\text{Equation 4})$$

We examine with Equation 4 the variance in the rate of return to education in different sectors at various points of time.  $X^v$  is the vector matrix of all the independent variables except “years of schooling” in Equation 1a;  $S_i$  indicates the years of schooling of sample individuals belonging to different sectors and  $\gamma_i$  represents the rate of return to education in the five sectors.

In different periods, the rise in the rate of return to education in different sectors varies widely. The data at the two timepoints in 1988 and 1995 demonstrate that the rate of return to education in the privately-owned economic sector reached more than 7%, significantly higher than that in the other four sectors under strong state regulation; the situation was the same in 1996. However, in the

$$\ln(Y) = \beta^v X^v + \lambda Party + \sum_{j=1}^3 \gamma_j Occ_j + \sum_{j=1}^3 \psi_j Party \times Occ_j \quad (\text{Equation 5})$$

We use Equation 5 to estimate the interactive effects between Party membership and occupational strata in two models, one in-

cluding all samples and the other including all samples except the privately-owned economic sector: between Party members and labor market in 2003, the rate of return to education increased by a big margin in all the five sectors (by 4%~7%) and the gaps across the sectors were already insignificant. The rate of return to education increased by a bigger margin in the Party and government departments and the other three sectors under strong state regulation in 2003 than in 1996, but the increase in the rate of return in the privately-owned economic sector was not statistically significant and was smaller than that in the Party and government departments and the state-owned enterprises. The rapid increase of the rate of return to education from 1996 to 2003 was an indication that the enterprise restructuring in the middle and late 1990s and the reform of government departments starting from 1998 had a substantial effect on raising the return to human capital.

### 4. Test of the hypotheses about the “return to political capital”

In the MTD literature, the logic of argument about returns to political capital is clear: political capital combines with power to reap the benefits of “redistribution.” This means that if political capital is related to power, “then political capital combined with power will yield political capital gains not enjoyed by non-power strata.” We can test this statement by designing an interactive model of Party membership and occupational stratum.

cluding all samples and the other including all samples except the privately-owned economic sector: between Party members and

specialized technical personnel, between Party members and supervisory staff and between Party members and clerical personnel. The results show that the interactions between Party membership and occupational strata have a clear negative effect. For example, in the labor market of 2003, the model that includes all samples shows that the supervisory staff who were not Party members had an income 29% ( $= e^{.501 - (.0683 - .323 + .501)} - 1$ ) higher than that of the supervisory staff who were Party members and the model that includes all samples except the privately-owned economic sector also shows a corresponding figure of 13.5%. These figures prove the situation is just the reverse of the argument that political capi-

tal combined with power leads to more benefits.

*In the view of the author, the marketized reform guided by the state is carried out, first of all, against the background of the changing political climate throughout the country. The shift in social life from political to economic dominance has produced a direct impact on recruitment of labor, job arrangements and career advancement and the changed guiding principle for social life has had a sustained influence over the labor market process which finds its expression in the new generation cohorts of the working population. To test this hypothesis, the author designed the following "moving cohort" regression model.*

$$\ln(Y_k) = \alpha + \beta_{k1}S_k + \beta_{k2}W_k + \beta_{k3}W_k^2 + \beta_{k4}Female_k + \beta_{k5}Party_k \quad (\text{Equation 6})$$

In Equation 6, subscript  $k$  indicates a group of continuous cohorts. Take the analysis of data in CGSS2003 for example: we take, first of all, a certain point of time  $K$  as the starting point (e.g.,  $K = 1962$ ), then select those people who first entered the labor market in 1962 and the following nine years as the first cohort sample and carry out the first regression analysis according to Equation 6. In the second regression we take the point of time  $K + 1$  ( $= 1963$ ) as the starting point, then select the people who first entered the labor market in 1963 and the following nine years as the second cohort sample and carry out the second regression analysis. The rest is done in the same manner. Finally, the coefficients of the return to political capital from this moving cohort sample group are used to portray the changing trend.

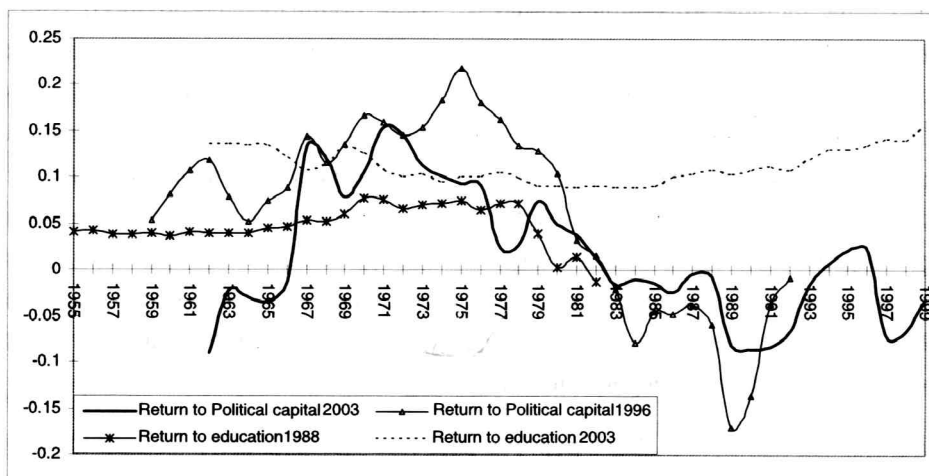
As indicated by Figure 1, changes in the

return to political capital for the labor market cohorts at the three timepoints are basically identical. In the labor market of 1988, the return to political capital rises slowly before the 1977 cohort but falls rapidly after the 1977 cohort. Looking again at the labor market of 1996, the return to political capital peaked at 24% ( $\approx e^{0.22} - 1$ ) with the 1975 cohort and then, beginning from the 1976 cohort, falls continuously and rapidly. Only around the 1984 cohort does it begin to fluctuate a little and then touches bottom with the 1989 cohort. In the labor market of 2003, the cohort with which the return to political capital begins to fall continuously and rapidly appears even earlier (the 1973 cohort). This shows that the role of political capital for the newer cohorts was not only affected by the social and political changes in China when they sought their first jobs, but could

also be weakened in their later career progression. This situation is rooted in the fact that great social changes took place just in the years when these people entered the

labor market and displays the impact of national political changes on the economic life of individuals.

**Figure 1 Changing trend of return to political capital with labor market cohorts at three points of time**



#### IV. Conclusions

This study originates from doubts over and criticism of the MTD itself and its three main hypotheses. No doubt, the “market transition theory” and the debates thereon have greatly stimulated academic circles’ understanding of the social changes in China. But the clear transitional objectives inherent in the “redistribution-market” framework and the misunderstanding of the logic of economic restructuring as the logic of holistic social changes undoubtedly make the MTD underestimate the complexity of social reform in China since 1978. Unlike the liberal model of marketization, market-oriented reform in China is unique because the Chinese authorities have upheld from the very beginning the fundamental principle of putting the

reform under the leadership of the state and state power has permeated the readjustment to and changes in the interest relations among various groups. However, the two parties to the MTD misunderstand this process from two opposite directions. “Market transition theory” analyzes the changes in China’s social stratifying mechanism in reference to a group of liberal marketization variables, over-exaggerating the role of spontaneous market forces in changing the original model of stratification while concealing the vital fact that marketization itself may intensify social injustice, a reflection of the trend in sociological studies of believing in “the omnipotence of the market.” On the other hand, some of the people who oppose the market transition theory simplify state power as a “redistribution power” with resource-seizing

and rent-seeking capabilities, substituting a special model of power operation for the universal operation of state power. Owing to these limitations of the analytical framework itself, knowledge and explanations of the changes in China's social stratification mechanism and their consequences provided by the two sides to the MTD have gross errors. In a sense, the three aspects analysed empirically in this paper serve as specific illustrations of these errors.

Beginning with the understanding of the concept of "dominance by the state," this study analyzes the social stratification mechanism and its changes during the reform in order to bring the category of "state" back into studies on social stratification during the transitional period and directly deal with the issue of the role of state power in the process of social stratification. For this purpose the author makes a preliminary probe into the forms of expression of state power in socio-economic life at the micro level in the light of income distribution during the transitional period. Unlike special analytical models of power, the author tries to put the state during the market-oriented reform into a normal model of social analysis, that is, to see the state as a rational actor with its own objective of interests (state interests). In fact, it is just because of the introduction of the analytical category of "state" that we are able to explain why inequalities among social strata and changes in the rate of return to education have different expressions in different sectors and to understand the changes in the role of political capital since the beginning of the reform.

As an actor with the particular objec-

tive of state interests, the state will start from the principle of its own interests and arbitrate, coordinate and regulate the contradictions and conflicts of interests constantly arising among various groups during the marketization process in order to maintain the basic social order. In view of this, this study puts forward the concept of "state regulation" in order to stress the point that as a rational actor, the state, while pushing forward the marketization process, will always monitor the impact of marketization on the relations among social strata. This means that a government representing the interests of various social strata can effectively control the growing market forces and regulate their impact on social life while strengthening its own construction and standardizing its operation (including regulating power particularism). The urgent research topic facing sociological circles now is how to build up the overall national strength and make the country prosperous and the people well-off through a market economy and at the same time effectively curb the negative effects inherent in the market through state regulation so that the base and order for future sustained and stable development will be established at the very beginning of the formation of a market economy.

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