

## Chapter 3

## Market transition, wealth, and status claims

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Does wealth contribute positively to status claims in China? The Western literature on post-1978 market transition in China has not addressed this question directly. This is surprising since market reforms have provided scholars with a unique opportunity to study the changing mechanisms of status attainment in the post-1978 era. Indeed, Chinese social stratification and mobility has stood out as one of the most developed research fields in China Studies (Bian 2002; Li and Walder 2001; Nee 1989; Oi and Walder 1999; Walder 1995; Walder 1998; Walder, Li and Treiman 2000; Xueguang Zhou 2000; Xueguang Zhou 2004).

Much of this large and influential literature has focused on inequalities of earnings and political power in the People's Republic of China [PRC]. It is clear that the reconfigurations of social and economic interests during market transition must have had a significant impact on the hierarchical orders of influence and esteem in China. But so far few scholars have published on the topic. For example, only two journal articles on occupational prestige in China are listed in SSCI since 1976 (Bian 1996; Lin and Xie 1988) and there is not a single monograph on status hierarchies in China by scholars outside the PRC.

This does not mean that status acquisition is an unimportant research topic. On the contrary, status is a key aspect of social stratification and mediates many processes by which people are given access to rewards, evaluated, and directed toward or away from positions of power and wealth (Ridegway 1998; Webster and Hysom 1998; Xueguang Zhou 2005; Berger and Zelditch 1998; Nan Lin 1990). Status is also seen as an intrinsic component of an individual's utility function that 'has important implications for social and economic systems because it can provide a powerful motivation to perform; it also can lead to unproductive competitions' such as the over-consumption of positional goods. Status acquisition is a widespread phenomenon as people 'in all cultures crave respect and recognition' (Huberman, Loch and Öncüler 2004:103-5). Given its social significance, there is an urgent need to examine the link between wealth creation and status claims in the PRC.

This chapter addresses that need through a study of entrepreneurship and status claims. Private entrepreneurs (those who own or control the means of production, and offer goods and services in a market for profits) are chosen for this study since they are a key component of the new rich in China. Field research shows that when people talked about the new rich, they invariably referred to private entrepreneurs. They remembered other components of the new rich only after being given a reminder. This is not surprising since private entrepreneurs have accumulated a large amount of wealth and have come to play a high profile role in the Chinese economy. They have also been intriguingly linked to powerful government officials and cadres of the Chinese Communist Party [CCP] (McGregor 2005; A Chen 2002; M W Peng 2001; K S Tsai 2005; Dali Yang 2006).

Nevertheless, it is still far from clear that private entrepreneurs enjoy a high level of influence and esteem in the PRC. Status acquisition is related to but distinct from economic resources or structural positions. Weber stressed that “‘mere economic’ power, and especially “‘naked” money power, is by no means a recognized basis of social honor’ (Weber 1946:180). Are private entrepreneurs highly regarded by Chinese citizens? What role does their wealth play in the subjective evaluation of their social standing in China?

To answer these questions, this chapter first discusses how private entrepreneurs have been viewed by ordinary citizens in terms of their social worth in China. Next, it briefly reviews three existing explanations of their poor performance in status acquisition. It then proposes an additional explanation of the subjective evaluations of private entrepreneurs in the reform era. It argues that wealth has not formed an adequate basis for status claims in the PRC. For convenience, the following terms are used interchangeably: honor, prestige, respect, social distinctions, social standings, status, status ordering, status beliefs, status hierarchies, hierarchies of influence and esteem, and social worth.

### **To get rich is not that glorious**

Communist ideology and the resultant political and economic campaigns of the CCP resulted in virtually no private businesses in urban China from the mid-1950s until market reforms were introduced in 1978. Twenty-nine years later, amazingly, the private sector is responsible for about three-quarters of economic output and employment in China. Private business people have amassed a vast amount of wealth in the post-1978 years. It is estimated that more than 25 percent of the global growth between 1993 and 2001 went to the new rich in the PRC. They and their family members probably do not exceed 4 percent of the total PRC population, approximately less than 45 million, or less than 0.74 percent of the world population of 6.1 billion in 2001 (A Chen 2002: 410; Edward 2006: 1677; Flannery 2006: 6).

The amount of wealth that the rich in China command can be seen from a different angle: in 2005, 29.1 percent of the rich (those with cash assets of US\$1 million in addition to home-ownership) in the Asia-Pacific Region were from the PRC, and each had average cash reserves of some US\$5 million (Yu Chunlai 2006). Twenty of the 946 billionaires cited by Forbes in 2007 are from the PRC, and the richest Chinese is Yan Cheung from the Nine Dragon Paper Company, ranking at number 390 in the Forbes’s list (Kroll and Fass 2007).

On the other hand, unlike Sir Richard Branson, Bill Gates, and Michael Dell, Chinese private entrepreneurs have not yet received the level of esteem and deference their wealth might be assumed to ensure. It is not always the case that ‘To Get Rich Is Glorious’ as Deng Xiaoping proclaimed. Findings from empirical studies are not very encouraging with regard to public evaluations of private entrepreneurs in terms of social worth. In a survey (n = 2,351) conducted in five major cities in 1993, for example, respondents rated private entrepreneurs the highest with regard to earnings but the lowest with regard to social standing. Private entrepreneurship ranked seventh out of the eleven career choices. As expected, in the survey, private entrepreneurs reported a stronger sense of deprivation in terms of political rights and social status than other social groups such as cadres, professionals, and state workers (Research Team 1993; Luo and Bai 1994).

As demonstrated in Table 3.1, the results from surveys on occupational prestige in China conducted in 1987, 1993, and 1999 showed that private entrepreneurs were rated higher in the prestige hierarchy than social groups such as junior cadres, technicians, office clerks, factory workers, and taxi drivers. They were then considered to be in the same league with entertainment stars, air hostesses, and middle or primary school teachers. They however received much lower prestige scores than social groups such as middle or high ranking cadres, scientists, and professors. (Xu 2000)

The new rich might have been expected to do a much better job of making status claims given that China has undeniably moved toward a market economy with strong consumerism and money fetishism (Croll 2006; Davis 2000; Latham, Thompson and Klein 2006; Wu 1999; Li Qiang 2007; Zhao Xiang 2006). The size of their assets cannot be held accountable for their poor performance since, as already noted, these are large even by international standards. Yet popular money worship and the huge amount of wealth the private business people have accumulated since 1978 have apparently failed to attract esteem and respect from the masses.

These surveys were conducted at a time when ordinary citizens were still willing to learn anger management to put up with rising inequality (Ju 2005; Zhang Dajun 1997). China's new rich might well get an even lower prestige score today: instead of having become an esteemed social group for their economic performance, they have become the whipping boy of the mass media. They have been blamed for many of the social problems recently manifested, such as the massive lay-off of state workers, and the increase in unaffordable housing, and have been disgraced by contrast to philanthropists in Hong Kong and the West such as David Rockefeller, Bill Gates, and Warren Buffett. For example, Hong Kong tycoon Li Ka Shing was immediately compared favourably with China's new rich when he announced a donation of HK\$50 billions to his charitable trust, the Li Ka Shing Foundation on 24 August 2006 (Li Ka Shing 2006). The mass media have also reported that the China Charity Federation received 75 percent of its cash donations from overseas contributors, as compared to 15 percent from domestic donors in the PRC. Media commentators have asked whether and when the rich in China will learn a better way of spending money other than conspicuous consumption and the sordid display of wealth (Nanfang Weekend 2003).

Since 2000 there have been heated discussions on 'wealth hatred' in the mass media and internet. This is a popular term used by ordinary citizens to reject the legitimacy of the claim to wealth by private entrepreneurs. The term reflects public anger at or public resentment toward the rich and has drawn an increasing level of attention from scholars in China and popularity among ordinary citizens (Hong Zhaohui 2004). In these discussions, the rich have been broadly labeled as the 'problematic rich' as their ways of making money have been portrayed as improper, unjust, or even illegal. A study undertaken at the end of 2004 found more than 6,000 entries if one searched on Google for the term 'the original sin of the rich' (*furen yuanzui*) and more than 20,000 entries if one searched for the phrase 'the mentality of wealth hatred' (*jiufu xinli*) (Hong Zhaohui 2004). Replicating these searches on Google in May 2007 revealed increases in the entries for each to 235,000 and 304,000 respectively.

China's new rich have been condemned in articles with emotional and threatening titles such as 'I do not want to hate well-off people, but I cannot help since many of them are the problematic rich,' 'How can I possibly not hate rich people given the ways they make money?' and 'It is unbelievable that Professor Lin Yifu asks us not to hate rich people' (Professor Lin Yifu is a prominent economist and something of a celebrity in

China) (Criticisms of wealth 2005-7). Public anger at the rich has been more than a threat: since the late 1990s there have been frequent reports and rumors of kidnappings, ransom demands, and murders of private entrepreneurs in China (Reports of violence 2004-7). The rich have taken the threat seriously: according to surveys undertaken by newspapers, many entrepreneurs believe that their wealth has brought them an acute sense of insecurity (Insecurity 2005-6).

Some scholars outside China suggest that private entrepreneurs have been constantly haunted by a nightmare of falling prey to seething popular discontent resulting from the 'unjustifiable' inequalities and suspect sources of their wealth. Public anger at the rich may in part explain why private entrepreneurs seem to have developed a profound sense of distrust in ordinary citizens and a general opposition to democracy if it means majority rule. They have sought protection from and close association with government officials and CCP cadres (A Chen 2003a; A Chen 2003b). Scholars in China have made similar comments in the mass media and written articles on this issue. Some scholars such as Lin Yifu have argued that public anger at the rich is unwarranted and should be set aside. Many others however have insisted that the rich have only themselves to blame for their bad reputation (Xiu Yangfeng 2005; Chen Zhiwu 2007).

Fieldwork conducted by the author in the past five years in China has also demonstrated the difficulties facing the new rich if they want to improve their public image. Many of those interviewed questioned the sources of wealth of the rich and rejected categorically any claim that they were rich because of their business acumen, risk-taking behavior, hard-work, or sheer luck. The interviewees were completely convinced that most rich people never made money honestly. They also generally asserted that the rich were selfish, cheap, heartless, showy, contemptuous, sneering, and most of all, that they had amassed wealth at the expense of ordinary people and had no sense of social responsibility and citizenship (Jones 2007).

The magnitude and intensity of 'wealth hatred' have apparently alarmed PRC leaders and helped them see the urgent need for legal and administrative measures to protect the rich and their property, resulting in other things in the enactment of the law on property rights at the Fifth Session of the Tenth National People's Congress in March 2007. There have also been public campaigns to recruit private business people into the CCP. In addition, President Hu Jintao, Premier Wen Jiabao, and other top leaders have repeatedly called for efforts to build a 'harmonious society' in the PRC (*Xinhua* 27 January 2006). The government efforts seem to have been partly motivated by the profound public sentiments against the new rich.

### **Public anger at the new rich**

Why is there such intense public resentment about the new rich? Why have private entrepreneurs not earned the levels of respect and prestige that has been achieved by their counterparts in other countries? There would seem to be three main explanations of 'wealth hatred'. The first is an 'original sin' hypothesis, namely, private entrepreneurs are not held in high esteem because of the ways they first accumulated their wealth. The public believes that such individual private fortunes started through a process of primitive capital accumulation during the 1980s and 1990s based on smuggling, bribery, speculation, tax evasion, theft of state assets, and illegal business deals (Larry Hsien Ping Lang 2003; Sun Liping 2005; Wi Jixue 2006; He Qinglian 2007). How can the new rich be held in high esteem if their money is considered by the public to be 'dirty' and venally acquired?

The second explanation is an ‘inequality’ hypothesis, namely, rising income inequality is the root of public anger at the new rich in China. One study estimates that in 2005, the richest 10 percent of the urban population owned 45 percent of the assets in urban China, as compared with 1.4 percent owned by the poorest 10 percent (Inequality 2005). Another study reports that ‘less than 1 percent of Chinese households control more than 60 percent of the country’s wealth (by comparison, 5 percent of the households in the United States own 60 percent of the wealth)’ (Pei 2006). The perception of inequality has been heightened by the speed with which the income gap has widened. It took only twenty-seven years to turn China, an international example of egalitarianism in 1978, into one of the most unequal societies by 2005 (Wenren Jiang 2006; *Xinhua* 17 January 2007). Conceivably, the collective memory of an egalitarian society and nostalgia for the ‘good old days’ may have been an almost inexhaustible source of fuel to public anger at the widening gap between the rich and the poor in the reform era (Davies 2005; Misra 1998; Yang 2003). Many scholars have warned that rising inequality has the potential to cause jealousy and even hatred towards the new rich (A Chen 2002; Hong 2004; Tsai 2005; Yang 2006).

The third explanation is an ‘unkindness’ hypothesis, namely, that the new rich are not respected because they have not demonstrated their sense of compassion and social responsibility. In particular, there is concern that the new rich do not adequately contribute to charitable causes. This is seen to be unacceptable given the amount of wealth private entrepreneurs have accumulated in recent years. True, some entrepreneurs have made donations to charity organizations and sponsored some philanthropic activities, but these have only further undermined their public image since they are seen to have given in return for bank loans, fame, protection, and the like (Bai, Lu and Tao 2006; Ma and Parish 2006).

There is though an additional explanation of ‘wealth hatred’ that is derived from an examination of the interaction between entrepreneurs and ordinary citizens. Private entrepreneurs may be seen in some ways to have gained profits at the expense of state workers. This argument is examined further through considering the ideological and economic legacies of state socialism and how they have brought about a profound sense of injustice among ordinary people and an increasing level of public anger at the new rich in recent years.

### **Ideological and economic legacies of state socialism**

After coming to power in 1949, the CCP undertook a series of campaigns to establish a system of state socialism. This effort reached a milestone during 1956-8 when the CCP built a centrally planned socialist economy with the nationalization of the private industrial and commercial sectors. Urban private entrepreneurship was basically wiped out as the state became the sole owner of all major assets such as plants, land, and banks. The public sector controlled the production and distribution of goods and services in urban China. It also allocated jobs and careers since there was no alternative labor market in urban areas. In addition, the government took care of issues related to welfare and the vast majority of urban people came to rely on the state sector for their livelihood (Brodsgaard 1983; Gold 1993; Ip 1994; Schurmann 1968; Walder 1984; Walder 1986; Zang 1995).

At the same time the CCP launched political campaigns to develop socialist citizenship. These campaigns were inspired by communist ideology, but also motivated by an

economic rationale. China was a backward and impoverished country in 1949. It lost the major source of capital and technology for industrialization after the PRC broke off with the USSR in the late 1950s. The CCP thus came to stress 'politics in command' and harnessed human labor as the most important resource for economic growth (Gray 1974; Hearn 1978). It could not use coercion since it claimed to be the vanguard of the masses, and in any case coercion led to low productivity. The campaigns for socialist citizenship seemed to be an efficient option since they could create a belief among the masses that they were the masters of the PRC.

This may partly explain why before 1978 the CCP created a political underclass to manage public opinion. Capitalists and other politically undesirable elements such as landlords were used by the CCP as the negative example in its effort to model the masses into socialist citizens. The underclass was publicized as anti-socialist devils, parasites, and self-seeking (Mammo 1981; So 2002; Watson 1984). In contrast, the 'new socialist man' was honored and exemplified by model citizens such as Lei Feng. State workers in particular were portrayed as the prototype of the 'new socialist man' (Braester 2005; Li, Lin and Zhang 2004; Reed 1995; Shirk 1982).

The campaign for socialist citizenship was supported by a new mobility regime that established political loyalty as the benchmark to determine rewards and life chances. Political loyalty was measured by the willingness to follow instructions from one's supervisor and through 'good class' backgrounds such as those derived from being a CCP cadre or manual worker. The mobility regime advanced the careers of the 'good' classes at the expense of others such as capitalists and landlords (Bian 1996; Goldman 2005; Lee 1978; MacFarquhar 2006; Perry and Li 1997; Rosen 1982; White 1974). The campaign for socialist citizenship and the new mobility regime brought about a widely held belief among the masses that they were the masters of the PRC.

This belief system reinforced the workers' commitment to the socialist cause and was strengthened by various government policies. For example, there was a well-established 'replacement' (*dingti*) system in the state sector though it was not formally recognized until 1978. This bureaucratic procedure allowed a state worker to retire early from his or her work-unit in order for his or her child to be assigned a job in that same unit (Christiansen 1992; Davis-Friedmann 1985; Hung and Chiu 2003; McLaren 1979). This practice, together with other government policies, reinforced state workers' belief that they were the masters of the PRC. More concretely, they believed that they *de facto* owned their work-unit collectively.

These ideological and economic legacies of state socialism have led to unforeseen consequences for market reforms. As noted, the state sector controlled much of the urban economy after 1957. A few private businesses survived on the periphery of the socialist economy, such as hawking and small catering, but they were only a supplement to the state economy. Like the informal sector in other developing societies, peripheral economic activities were never going to generate a good profit margin due to low entry barriers and thus their intensely competitive nature. They are unlikely to account for the current success of private businesses. It is more likely that private businesses have expanded at the expense of the state sector since the latter controlled virtually all urban assets when market reforms started in 1978. In other words the growth of private businesses has been partly based on their ability to turn state assets into private property.

The economic interests of the urban working class were rooted in the state sector, and these interests were reinforced by the widely held belief that state workers were the

masters of the state and that as such they collectively owned units of state property, such as their workplace. If the assets of the public sector were encroached upon by private entrepreneurs the urban working class might legitimately feel that they were losing out on a large scale. In addition to arguments about 'original sin,' inequality, and unkindness, it is then possible that public resentment of the new rich is also an example of working class interest articulation in a zero-sum game

### **Post-1978 wealth creation as a zero-sum game**

The CCP changed its policy to permit private entrepreneurship in 1977, as a transitory arrangement to deal with urgent unemployment issues in urban areas. The state economy was greatly weakened during the Cultural Revolution of 1966-1976 and was unable to continue to function effectively as an urban employment agency. This problem was compounded with the return to the cities of nearly 18 million 'educated youth' whom the CCP had sent to rural areas during the Cultural Revolution (Bernstein 1977; McLaren 1979). Urban employment threatened social stability and the political legitimacy of the CCP. The government thus modified its policy toward private businesses to create a new labor market for urban unemployed youth. While the CCP clearly defined them as the main beneficiary of the new labor market, lower status people such as ex-criminals, workers with a low-paid job, and rural peasants took advantage of this policy change since they could not otherwise find a better job elsewhere in the cities (Gold 1990; Szelenyi and Kostello 1996).

#### *Individual businesses*

Unexpectedly, in the early 1980s, these low status people became the backbone of a small or 'individual business' sector (*getihu*). By then the CCP had managed to place most unemployed urban youth in either the state or collective sectors. Generally speaking, these individual business people were marginalized because of their humble origins and poor educational attainment. Many urban Chinese pointed out that only those without a better alternative would start an individual business of this kind. Starting an individual business was not a popular career choice because the small-scale enterprises operated outside the state sector. That means that neither owners nor workers had career prospects, job security, medical insurance, subsidized housing, fringe benefits, or pensions. Nor were they entitled to welfare provisions such as grain and cloth rations, housing, pension schemes, and labour insurance since these were either non-existent at that time or controlled and distributed by the government to state workers. State workers might receive less cash income than those working in individual businesses, but the overall value of the compensation package in state employment greatly outweighed that for individual businesses and private entrepreneurship.

Individual businesses were also not respected because they relied often on trade speculation in making profits. They had no choices since the state monopolized all other urban economic activities, but historically speculation was not an accepted business behavior. This Confucian belief was greatly reinforced by the CCP's communist ideology privileging production and labor. Under state socialism, redistribution allocated goods among the people and was not meant to be a means of profit-making. It is thus not surprising that most people could not appreciate the potential for private entrepreneurship to make a meaningful contribution to society. Rather, it was widely regarded as a zero-sum game in which individual businesses parasitically made easy money at the expense of honest working people.

Equally important, individual businesses were not admired precisely because state workers enjoyed a higher status as masters of the PRC, as well as the fruits of the state monopoly over the urban economy. Individual businesses had to spend a far greater amount of time and energy than state workers to earn a living. They had to compete with one another in a labor-intensive market with low barriers to entry. They were not able to derive a large profit margin from their small scale businesses. In most cases, the individual business was simply a hard way of earning a livelihood. This may explain why few if any of these individual business people have become part of the exceptionally rich in China today (Hong 2004). These businesses have been described as ‘ventures that can never grow beyond ¥10,000.’ This may also explain why during the first decade of reform, most accounts of individual businesses by non-PRC observers described how they lived and worked at the bottom of urban society, and how they suffered from low self-esteem and a lack of respect in China’s cities (Chan and Unger 1982; Gold 1990; Hershkovitz 1985; Solinger 1984).

### *New Opportunities*

A new group of private entrepreneurs emerged after 1985. In that year, the central government encouraged state enterprises to increase their outputs after fulfilling the state production targets. They could sell surplus products in the market and keep the profits, though they had to find the raw materials for the increased production themselves. This policy aimed at boosting industrial production and quickening the pace of market growth. It quickly led to an imbalance between the demand and supply of some commodities and raw materials. State firms received regular quotas of raw materials at planned prices from the government to meet the state production targets. They paid higher prices in the market for additional raw materials with which they produced surplus products for revenue (Hare 1990; Qian 2000; Tsang and Cheng 1997; Wu 1987; Zhang Xiaoguang 1998).<sup>1</sup>

This brought about a dual-track price structure in which the same commodities were priced differently between the planned economy and the market. For example, in 1988, one ton of steel sold for 700 *yuan* in the state sector and 1,500 *yuan* in the market. In the same year, a ton of coal sold for 70 *yuan* in the state sector and 170-210 *yuan* in the market in Shanghai. Other examples of the price differences included the different interest rates for bank loans and exchange rates for foreign currencies

Under the dual-track price structure, it was possible to earn profits by increasing production with high-priced raw materials. A more efficient way of profit-making was to pocket the price differences between the state sector and the market. The key was the ability to obtain official quotas from the government. A lot of players were drawn into this market – it is estimated that nearly 41 million people (43 percent of the total labor force in the tertiary sector) participated in business activities related to the dual-track price structure by 1988. This was because participation in this market did not require capital or technology. The transactions dealt with official quotas rather than commodities. Business decisions did not entail substantial risks since the goods were in strong demand in the market.

The strong demand in the market determined hefty proceeds from the dual-track price structure. One study claims that the price differentials for commodities, bank loans, and foreign currencies between the planned and market sectors were worth 200 billion *yuan*

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<sup>1</sup> The dual track price system was annulled in March 1997.



in 1987, which was not a small amount since the total revenues the PRC Government collected in that year were 1,000 billion *yuan*. In 1988, the price differentials grew to 357 billion *yuan*. In a comparative perspective, this figure was worth almost 30 percent of the state revenues in that year. Another study claims that the total proceeds from the dual-track price structure were worth nearly 40 percent of the state revenues in 1988 (Wu Jixue 2006). Still, another study asserts that the total profits from profiteering in the 1980s were equal to 600 billion *yuan* (Private entrepreneurs 2007).

Who were the main beneficiaries of the dual-track price structure? Most players in this lucrative market were individual profiteers, although some state units also jumped on the bandwagon. Unlike individual business people these profiteers were well-educated, worked in prestigious government offices and firms such as state trading companies, and were mostly children of high-ranking officials (Hu Xiaopeng 2004). In retrospect, this is not so surprising since the new market had a high barrier to entry, in contrast to the competitive nature of the small commodities market that characterised the operation of individual businesses. Only those who were connected to leading officials could have privileged access to valued goods controlled by the government.

In spite of their noble family origins, good education, and the large amounts they had earned from the dual-track price structure, these profiteers were referred to as *daoye* a term of denigration that implied a negative image of hooligans. Their business activities were colloquially referred as ‘official racketeering’ (*guandao*): the unscrupulous combination of speculation and political power (People 2005). The profiteers were not respected since they were seen to have made money through illegal or more accurately improper connections to officials rather than through sound business decisions, private investment, and the exercise of business acumen.

Equally as important, the profiteers were seen as parasites since they made money by exploiting state assets, viewed as communal property by the citizenry. In their eyes profits from the dual-track price structure should be part of state revenues rather than private wealth, or at least the profits should be shared more widely with the collective owners of public property in some way. In this sense, these profiteers were seen to be involved in a zero-sum game with the rest of society since their gains were balanced by everyone else’s losses. The possibility that these profiteers would then be regarded as admirable was almost necessarily low.

### *Land developers*

Starting with the late 1980s, another group of private entrepreneurs emerged from large-scale land speculation. The whole process started after the government gave a green light for the development of a real estate market in urban areas, using it as a major catalyst to quicken the pace of capital accumulation and market reforms (Yeh and Wu 1996; Lin and Ho 2005; Wu Fulong 1997; Wu Fulong 1999; Zhu Jieming 2005). Most players in the land market are private developers, who have reaped monopoly profits since the supply of land (especially land in good locations) has always been limited. It is difficult to discover the extent of their earnings. Indirect evidence suggests that on an annual basis, the government suffered nearly a 12 billion *yuan* loss of land taxes through speculation by private developers. The dual-track price structure produced some millionaires. In comparison, the real estate market produced all kinds of millionaires and also ‘China’s first billionaires and even a few trillionaires’ (Hong 2004; Pei 2006; Walker 2006).

As with the dual-track prices market, the real estate market has a very high barrier to entry since it is capital-intensive and requires access to land. Only those who are well connected to leading cadres are able to participate in the land market since the state owns all the banks and land. Local officials have sold lands to their family members, friends, and others related through various kinds of personal ties at give-away prices. They have also helped developers obtain low-interest loans from state banks under their jurisdiction.

The twelve largest real estate developers in Guangdong Province are reported to be the children of high ranking officials. In Shanghai, nine out of the ten largest real estate developers are said to be the children of high ranking officials. Children of high ranking officials also control thirteen out of the fifteen largest construction companies in the city (the other two are state firms). In neighboring Jiangsu Province, all twenty-two of the largest real estate companies and the fifteen largest construction firms are owned by children of high ranking officials. High ranking officials in this context refers to those working as or retired from working as leading cadres in the central and provincial-level governments (Jones 2007; Children 2006).

Private developers have not earned a great deal of public esteem. They too are seen as having relied on illegal or improper connections with officials for their business success. They are not seen to have invested their own money, made sound business decisions, or borne any business risks. In the unlikely event that their business should fail, the wider expectation is that local officials would order the banks to write off the loans because of the developer's connections. Again, this is seen as a zero-sum game. The developers gain against everyone else, since the developers have mortgaged public assets (loans from state banks and state land) to their own benefit. Private gain is balanced by public loss since neither the state nor the broader citizenry have benefited from the land speculation. Ordinary people have in some sense borne the loss collectively.

Unlike the emergence of a dual-track price structure in manufacturing and processing that had a relatively minor impact on ordinary citizens, the development of the real estate market has victimized a large group of people. Land has been an essential source of income and a way of life for farmers. They have been a primary victim of land speculation as much of the land for real estate development has come from previous farmlands. According to the Research Center for Development under the State Council of the PRC, by 2004, farmers in China had lost 200 billion *yuan* in land expropriation (Cody 2004a; Hong 2004; Pei 2006; Walker 2006). Residents in designated urban renewal areas who have often been forcefully removed from their neighborhoods with inadequate compensation have also been victims of similar processes. Local officials seem not to be hesitant to use coercive measures to expropriate land in return for personal gains, or as a means to support the business goals of their family and friends (Tanner 2004; Li Fan 2006; Xia Yunfan 2004; Du 2005).

Land speculators have not only misappropriated public property for personal gain but also amassed wealth at the expense of individual citizens. It is reported that it has become harder for PRC home buyers to buy a home than their counterparts in the rest of the world. The greed of private developers has been blamed for artificially high housing prices. The housing market has become one of the 'three new big mountains' (along with health care and college education) that have developed beyond the reach of ordinary people. Many citizens have asked why they have to pay high prices in the real estate market since they have housing rights and the land belongs to the state and the people (She 2006a; Shen 2006b; Niu Dao 2006; Slaves 2007).

### *Former state managers*

The rise of private developers has been accompanied by the growth of another group of private entrepreneurs, the former managers of state and collective enterprises. They may not have the support of powerful officials that private developers have enjoyed, but they are seen to have been equally aggressive, grasping, and vicious. More numerous than private developers, the harm they have inflicted on the urban citizenry is regarded as more widespread and personal.

The fortunes of these former managers started to develop in the late 1980s when the majority of state firms still operated on a non-profit making basis. Profitability was not a goal of these firms since they were part of the state sector and hence survived through government support. These firms had become a liability rather than an asset for the government. The government decided to transform most of these firms into 'shareholding' companies in the hope that once workers and managers became the shareholders of their firms, they would do their best to improve efficiency. The transformation was arranged in such a way that most workers received some shares and retained their jobs, while managers became the major shareholders of the firms (Hong 2004; Zang 1995).

The firms turned into shareholding enterprises in this way stayed within the state sector since the introduction of shares was meant to be a mechanism of income-distribution among employees and to encourage efficiency rather than a means of creating private ownership. The firms remained a poor performer in the market since, unlike private firms, they still had to provide expensive health care, housing, and pensions to their employees. Moreover, the government was ultimately held responsible when they could not pay. Consequently after 1998 the government moved toward further privatization. In a similar process to Russia's 'shock therapy' (Fish and Choudhry 2007; Holmstrom and Smith 2000; Thompson 2002) managers and some private business people bought the firms from local officials at a huge discount. The common view is that this was the result of their interconnectedness and to their mutual benefit. The discount was justified by the fact that the firms were losing money. Managers used the same reasoning to buy shares owned by workers at a cheap price. Of course, once the firms became their private property it became possible for them to make workers redundant with a relatively small lump-sum payment (Hong 2004; Cai 2002; Cai 2005a; Chen Feng 2000; Chen Feng 2006; Giles, Park and Cai 2006; Solinger 2002).

The former state managers have taken full advantage of the existing equipment, land, and business networks of the firms they purchased. Land has been the major windfall, since many state firms were located in areas that have become the central business district in many cities.

These former state managers leading these new firms may have caused greater public outcry about the emergence of the new rich, more even than attends the individual business people, the profiteers, or private developers. Individual businesses supplemented the urban economy and provided urban residents services that were unavailable at that time. The economic activities of the profiteers did not directly bring them into contact with ordinary people, and their activities almost certainly increased industrial production. Private developers have been guilty of land expropriation, but they have improved living conditions in cities, and entry into the housing market has been largely voluntary. The gains from the zero-sum games they have been involved in

have come from the redistribution of public property. Ordinary citizens have experienced the losses as a community rather than as individuals.

The former state managers now leading recently privatized firms have in contrast taken on the interests and livelihoods of urban people on an unprecedented scale. They have dispossessed state workers in ways that seem to threaten the vast majority of urban people. Their gains are balanced directly by the losses suffered by state workers. Unlike the outcomes of the previous rounds of primitive accumulation, many state workers have lost their jobs and been thrust into urban poverty through privatization. Ordinary people have experienced the losses as individuals rather than as a community, and the poor's hostility towards the rich has escalated steadily since 2000 (Hong 2004; Cai 2002; Cai 2005; Chen Feng 2000; Chen Feng 2006; Giles, Park and Cai 2006; Solinger 2002).

There is considerable antipathy to the new rich, and particularly to the various categories of private entrepreneurs. At the same time, some individual business people have earned respect from ordinary people because of their entrepreneurship. In particular, some are regarded as 'intellectual businessmen' since they have derived their profits from the high-tech world (Kwaku, Li and De Luca 2006; Li Haiyang 2006; Watkins-Mathys and Foster 2006; Zhao and Aram 1995). They are admired also because

'The overall sense of social responsibility and business integrity are evidenced in this group's dutiful tax payments in 1998 that amounted to 2.25 times more than those rendered by all the other private enterprises combined. The government policy to support the development of high-tech industries in China...have lessened the bureaucratic obstacles for this group to obtain administrative approval of their entreprenuring undertakings, hence their limited need for engaging in rent-seeking' (Hong 2004: 30-1).

## **Wealth and status**

Status acquisition is a key variable in research on the new rich since it is closely related to their lifestyles, cultural behavior, and consumption patterns. It is also a key component of social stratification in any society. Yet little has been written on wealth creation and status acquisition in China by Western scholars. Through examining the status performance of private entrepreneurs this chapter has sought to narrow this knowledge gap. It shows that wealth itself is inefficient as an explanation for status claims in post-1978 China. Instead, public resentment against the new rich seems to be widespread and pronounced.

Why has wealth not brought honor and respect for private entrepreneurs in China? The answer is clearly not the small size of their wealth since it is large even if measured by international standards. Nor are Chinese citizens the kind of people who do not care about material pursuits. A plausible answer is that money is only one of the determinants of esteem and influence. Indeed, social science research indicates that subjective assessments are mainly social influences (Martin 2002: 864). Public anger at the new rich in China can be best understood by reference to the fact that only social behaviors seen as appropriate or legitimate receive deference, prestige, or social status, and *vice versa* (Zhou 2005).

What then might be the social behavior of the new rich that is unacceptable to ordinary people in China? Existing explanations have generally cited the 'original sin' of the new rich, rising inequality, and the reluctance of the rich to contribute to charitable causes in the PRC. While these explanations are certainly important, this chapter has offered an additional explanation to the pattern of public reaction towards the new rich

in China. Private entrepreneurs and ordinary people were in a zero-sum game. The argument is that the state was the sole owner of major assets in the PRC before 1978. Through market transition public property has been gradually privatized. This process has been implemented by the controller of state assets, the CCP, which has thus brought to privatization a zero-sum nature: those who are connected to government officials and CCP cadres can amass wealth through privileged access to state assets, whereas those who are not are the losers.

The new rich have not then gained higher social standing for two reasons. First, many private entrepreneurs have accumulated wealth through large-scale appropriation of public property, or they would not be where they are today. But making private profits at the expense of state assets is unacceptable to the ordinary citizens in any country. This may be especially the case in the PRC since ordinary people have been socialized to take their (previous) status as masters of the PRC for granted. Public property is regarded as belonging to the state and 'the people' - the collective owners of state assets - by definition. The ideological legacy of state socialism has encouraged ordinary people to view the fortunes of the new rich as evidence of the theft of 'communal' property such as official quotas for valued goods, bank loans, and land.

Second, the economic interests of state workers were grounded in the state sector as a result of the state socialist system practiced before market reforms were introduced. Chinese workers were dependent on the state sector for employment, housing, health care, retirement, and welfare generally. The economic legacy of state socialism has determined that privatization of state assets is seen not only to have trespassed into public property, but also to have encroached on the very economic interests and livelihood of urban residents.

Both of these reasons would seem to explain why public anger at the new rich appears widespread and pronounced in the PRC and why ordinary people are so sensitive to the 'original sin' and the lack of generosity. There has been the primitive accumulation of capital in other societies, notably Hong Kong, Taiwan, and Mexico. However, in the PRC the zero-sum nature of primitive accumulation of capital is crystal clear. Unlike in non-socialist societies, the PRC state and 'the people' were the only owners of wealth before 1978. It is also crystal clear that market transition has involved a process in which public property has been channeled into private hands. Ordinary people in the PRC have better reasons than their counterparts in non-socialist societies to believe that the rich are rich because they have taken from the state and the people. The ways private entrepreneurs encroach on the interests and livelihoods of ordinary people in non-socialist societies are far less direct and consequential than those of their counterparts in the PRC.

'Wealth hatred' in the PRC may nonetheless prove to be a temporary phenomenon since it has resulted through the transition from a state economy to a market economy. Privatization of state assets and thus the zero-sum game have more or less come to an end. With laid-off state workers being replaced by the next generation of urban workers, public anger at the rich may recede in the near future as the economy has grown and the livelihood of ordinary people has improved. Private enterprises may also provide more employment opportunities and become more involved in public affairs and charitable causes. As the PRC intensifies its efforts to develop a knowledge-based economy, the number of intellectual entrepreneurs may grow, and that too may improve the image of wealth and the new rich in general.

**Table 3.1: Prestige scales – Occupations in selected years**

OCCUPATION	1983 survey	1987 survey	1993 survey	1999 survey
Mayor		87.9	81.3	92.9
Government minister		82.8	87.0	91.4
Professor	83.8	88.6	87.6	90.1
Judge		80.6		88.3
Court prosecutor			78.4	87.6
Lawyer		84.2	70.8	86.6
Leading cadre in Party or government body	68.1	77.7	71.9	85.7
Natural scientist	83.8	84.5	75.5	85.3
Translator			67.1	84.9
Social scientist	82.7	83.5	79.2	83.9
Doctor	86.2	80.9	68.8	83.7
Writer	81.7	87.4	67.4	82.5
Reporter	81.1	83.2	66.2	81.6
Director or manager of a large or medium-size state enterprise		79.4	76.9	81.3
Industrial or commercial administrator/tax officer		68.3	63.0	81.1
Singer			55.1	80.1
Editor		83.0	65.2	79.7
Bank clerk		68.7		79.1
Private entrepreneur		67.6	58.6	78.6
Film or TV actor	57.7		60.0	78.2
Air hostess			56.9	78.0
Teacher in public middle or primary school	66.4	70.7	61.4	77.1
Policeman	43.8	65.7	66.5	76.2
Mechanical engineer			72.4	76.0

Director of small state enterprise		73.6		75.9
Sportsman	62.8		60.4	74.7
Accountant in large enterprise	66.4		60.4	73.4
Ordinary cadre in Party or government body	63.0	65.5		73.3
Car driver in Party or government body			59.8	70.1
Cultural self-employed worker			48.5	68.2
Political cadre in business unit or institution		63.9	67.6	66.8
Industrial or commercial self-employed worker		62.2	48.3	65.7
Nurse	55.3	66.7	50.2	64.1
Hotel cook		43.5	68.8	60.6
Taxi driver		66.5	50.4	59.5
Postman	46.3	63.0	42.3	59.1
Bus driver	63.2	67.5	50.4	58.5
Worker in an undertaker' s		50.2	27.1	53.0
Shop assistant	42.1	59.9	33.4	50.8
Bus conductor	42.1	53.9	41.5	48.7
Worker in large or medium-sized stated enterprise		64.8	52.4	47.4
Sanitary worker	25.9	54.6	28.5	45.5
Peasant	57.9	28.2		44.7
Worker in town or village enterprise		59.3	43.2	44.3
Restaurant waiter	39.0	58.0	33.2	43.5
Worker in small stated enterprise		61.4		43.5
Worker in collective enterprise		59.5	35.9	42.7
Employees of self-owned laborer			23.0	37.7
Housemaid	18.9	49.8	19.1	36.9
Sample size	1,632	753	3,012	2,599

Source: Xu 2000.