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CREATING WEALTH AND  
POVERTY IN POSTSOCIALIST CHINA

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## Poverty and Wealth in Postsocialist China: An Overview

*Deborah Davis and Wang Feng*

China today is an economic giant deeply embedded in global trade and production. In 2006, China's nominal gross domestic product (GDP) exceeded two and one-half trillion U.S. dollars, larger than that of France and approaching that of Germany. Calibrated in the metric used by the World Bank to capture comparable real standards of living, China's GDP in 2006 reached 10.21 trillion purchasing power parity (PPP) dollars, thereby placing its economy second in the world only after the United States.<sup>1</sup> In the three decades since 1979, when it began to dismantle the socialist planned economy, China has become the number one recipient of global capital flow among all developing countries, and the Shanghai Stock Exchange, which reopened in 1990, had by 2007 become the sixth largest stock exchange in the world.<sup>2</sup> In May 2007 eight million new accounts were opened in a single month. For the first time in its history, the combined stock market capitalization in China's two stock exchanges surpassed its GDP.<sup>3</sup> By any metric China is a central player in global capitalism, and the practices and institutions of socialism appear to have receded into a distant past.

Communist capitalism has not only produced an economic miracle but also glaring inequality. In 2005, *China Daily* reported that 236,000 citizens were millionaires and that the number of individuals with at least one million U.S. dollars in assets grew at the sixth fastest pace in the world (Wilson 2005). At the same time, per capita incomes are low and a majority of citizens live on less than two dollars a day. Moreover, simultaneously with sustained macro level growth, levels of income inequality are now comparable to those in the United States and greater than those in India and Indonesia.<sup>4</sup> Thus, within the story of global growth and new affluence are social, political, and economic dynamics that produce both wealth and poverty.

One can argue that the most central process in China's postsocialist transformation is the "reallocation of labor and capital" that transformed other former socialist economies (Mittra and Yemtsov 2006: 25). Yet in almost every parameter China's postsocialist trajectory does not parallel those of Russia and Eastern Europe in initial outcomes or pace of change. Instead of suffering a devastating economic downturn in its initial retreat from

socialist autarky, China experienced two decades of double-digit growth and a dramatic drop in poverty. In contrast to the “shock therapy” that characterized postsocialist transformations in Europe and Central Asia, China followed a gradualist reform approach that not only avoided sudden economic contraction but also kept the state firmly at the helm. In addition, even as China has emerged as a giant in the global capitalist economy, the communist one-party system that engineered both the socialist and the post-socialist revolutions retains its political monopolies. In 2007, twenty-four Chinese companies made the list of the Fortune 500;<sup>5</sup> all were either owned or controlled by the Chinese state. China’s postsocialist economic surge, therefore, in many ways more closely resembles the trajectory to relative affluence in the 1970s of such authoritarian East Asian developmental states as Taiwan and Korea rather than duplicating the experience of the former Soviet Union or Eastern Europe.

Prevailing meta-explanations for rapid transformation typically privilege dichotomized pairs of economic and social stratification regimes, highlighting the shift from an agrarian to an industrial society or from a planned to a market system. But China’s transformation does not accord easily with either an abrupt transition to an industrial society or sudden abandonment of a command economy. Central to China’s emerging dynamics of social stratification is the interaction between institutional practices of the socialist decades and deep engagement with the market rules of global production. For example, twenty-five years after the demise of the People’s Communes, there is still neither private ownership of agricultural land nor total freedom to move permanently from a village to the city. Equally important is the coherence and power of the Chinese Communist Party. In 1991, just prior to Deng Xiaoping’s intensification of market reforms, the Communist Party had 51 million members, or 4.4 percent of the entire population; by 2005 membership reached 70.8 million or 5.5 percent of the population (Xinhua 2006b). Furthermore, although there have been reports of declines in the number of Young Communist League branches, League membership remains an essential stepping-stone for career advancement, and recruitment efforts have recently intensified on university campuses (Rosen 2004).<sup>6</sup> No one would dispute that the Chinese economy has “grown out of the (socialist) plan” (Naughton 1995), but it is equally true that the party organizations and officials close to party-state power continue to hoard income-generating opportunities and extract major rents. Extensive expropriation of collectively owned agricultural land for state infrastructure projects and commercial real estate development have created vast profits for officials and place party-state agents at the center of profit seeking. Consequently, to understand the current distributions of poverty and wealth as well as

the underlying processes that stratify Chinese society, we emphasize institutional context and historical legacies.

For example, to understand the situation of industrial workers in a post-socialist China, we must consider China’s long history of sustained investment in industry. From the very first years after the establishment of the People’s Republic in 1949, the Chinese Communist Party (CCP) leadership was committed to rapid industrialization. Thus, the industrial capitalist practices in recent decades have evolved both from three decades of Soviet style urban industrialization and the evolution of rural township-village-enterprises (TVEs), whose origins are in part in the five small industries sponsored by the People’s Communes when subcontracting to urban state-owned enterprises (SOEs). The current receptivity to global investment in Chinese industry and massive spending on industrial infrastructure, therefore, do not represent a new commitment to either manufacturing or industrial organization.<sup>7</sup> Rather, the most distinctive shift in industrial institutions since 1980 has been a radical spatial redistribution of industrial labor from north to south and from large cities to an industrializing countryside.

Contributors to this volume address many different dimensions of inequality as well as the institutional processes that have generated wealth for a minority and kept others mired in poverty. The specific location or population varies by chapter, but each author goes beyond arguments about efficiencies of marketization and lowered transaction costs to analysis within a particular institutional and historical context. Cai (Chapter 10), for example, explores how recommodification and privatization of social welfare goods such as medicine have improved quality of services but increased the risk that illness will push a family into poverty. Xueguang Zhou (Chapter 7) and Zhou Feizhou (Chapter 8) examine how recommodification of land remains a highly politicized process that creates pockets of great wealth amidst relative poverty. Zhang Jing (Chapter 9), Han and Whyte (Chapter 13) and Ching Kwan Lee (Chapter 14) analyze popular understandings of equity and justice and ask how the legacy of socialist practices creates patterns of inequality that differ from those in capitalist societies without a socialist past. Most broadly, the authors ask how generic capitalist institutions and practices interact with China’s historical, political, and cultural institutions to allocate life chances. Like Gerber (2006) in his work on postsocialist Russia, we offer no overarching explanation. Rather we find that it is the social and political context and the interaction of individual attributes within particular organizational settings that define current patterns of social stratification.

In this overview essay we first summarize the distributional outcomes in terms of income inequality, poverty, and wealth, and then look in more detail at the configurations of political and economic power that have increased

returns on political power and such capital assets as farm land but depressed returns to manual labor in the service sector and manufacturing.

## INEQUALITY

In the case of Taiwan and Korea, two early Asian “tigers” who leapt ahead of their neighbors economically through export-led industrialization, macro-level economic gains initially left almost no poor household worse off than before and even reduced income inequality among households (Fei, Ranis, and Kuo 1979). In high-growth, postsocialist China, however, greater affluence has dramatically reduced the incidence of subsistence poverty but increased income inequality, resulting in a pattern of rising inequality similar to that found in Brazil, Mexico, and Indonesia.<sup>8</sup>

Prior to market reforms, China had a distinctive pattern of inequality because of a rural-urban divide that essentially created two forms of socialism within one country (Davis 1995 and Whyte 1996). In towns and cities the socialist revolution created historically unprecedented security as well as an industrial proletariat whose standard of living approached that of managers and professionals. During the 1970s, average city incomes were triple those in the countryside and urban income inequality was one of the lowest in the world (Davis 2000; Parish 1984; Walder 1986; Wang 2008).

Rural residents, however, gained meager rewards from the socialist revolution. Regardless of whether they grew grain or nongrain crops, farmers could only sell to the government procurement stations at prices fixed by central ministries to provide cheap food in the cities. Prohibited from engaging in private trade or handicraft production and denied the opportunity to leave farming for industrial work, those working in rural areas were necessarily condemned to the lowest income strata. Only the small minority who held administrative or professional jobs at the commune level had access to cash salaries that approached those of the lowest-paid urban factory workers. The collectivization of rural land during the 1950s had reduced within-village inequalities. However, because the Maoist blueprint for the rural sector eliminated self-employment, artisan sidelines, and petty trade, the same policies that leveled income differences also institutionalized village self-sufficiency, which over time created inequalities between villages that were as great as—if not greater than—those of the precommunist years. Thus, in one of the ironies of history, the communist victors of the 1946–1949 civil war not only built a collective economy with an unusually harsh rural-urban divide but also decimated one of the most commodified and commercialized preindustrial economies in human history (see Chapter 15 by Wong as well as Hamilton 2006; Naquin and Rawski 1987; Pomeranz 2000; Wong 1997) and transformed tens of millions of rural craftsmen and

traders into land-bound peasants (Davis 1995; Friedman, Pickowicz, and Selden 1991, 2005; Knight and Song 1999; Oi 1989; Watson 1984).

Reliance on export-led industrialization and recommodification of goods and services after the elimination of the People's Communes radically altered the earlier socialist rules of the game for rural residents. Households no longer pooled labor, and by 1993 grain sales and decisions on cropping were left almost entirely in the hands of individual farmers. As early as 1980, the government encouraged rural households to start family enterprises and become individual entrepreneurs and traders. Even as a system of household registration continues to restrict full access to urban services and permanent registration, rural labor now flows to city jobs in response to market signals. As a result, although village incomes still lag behind those in cities, real per capita incomes rose nearly six-fold between 1978 and 2004. Simultaneously, however, income inequality at the national level and between rural households is higher than it was during the socialist decades.

In cities, there was neither a single institutional “big bang” comparable to the rapid dismantling of the People's Communes nor as rapid an inflow to self-employment and private sector employment. However, by the time China had entered the WTO in 2001, urban labor markets resembled those in other capitalist economies, and the compressed urban wage structure of earlier decades had disappeared. In 1988 the Gini coefficient for urban family income was 0.227; in 1995 it reached 0.336 and by 2002 had risen to 0.345. See Chapter 2 for a discussion of how inclusion of cash value of benefits increases the gap.

Rising inequality in China cannot be divorced from the international political economy within which China has engineered its impressive economic growth. China's economic growth both fueled and has been fueled by the most recent expansion of global capitalism. Increasingly engaged in global manufacturing and trade, both state and nonstate employers maximize their comparative advantage of cheap manual labor. The decision to enter the WTO and adopt an export-led growth strategy recalibrated the reward structure across sectors. Particularly in manufacturing enterprises that had previously operated under soft budget constraints, international competition pushed managers to widen the potential labor pool and adopt new criteria for setting wages. Multinationals—first from Taiwan and Hong Kong; later from Japan, Korea, the United States, and Europe—moved production to greenfield sites in southern provinces that had had little or no industry. Their new shop-floor employees were millions of young rural migrants, not established industrial workers. Initially wages exceeded those in farming but were lower than those paid in the state manufacturing sector. By the late 1990s, a national labor market for unskilled and semiskilled labor had emerged, and wages for manual jobs began to converge across



ownership sectors and geographic regions. By contrast, credentialed professionals and experienced managers who were in short supply commanded a premium and the blue-collar–white-collar income gap that had been trivial in socialist cities rapidly increased (Research Group for Social Structure in Contemporary China 2005).

Macrolevel growth and rising profits over the 1990s, however, did not greatly increase the percentage of jobs in manufacturing or consistently raise the wages of industrial labor. On the contrary, the percentage of the labor force working in manufacturing declined after 1995, and wages for manual workers stagnated (Research Group for Social Structure in Contemporary China 2005). As Peter Evans and Sarah Staveteig explain in Chapter 5, rather than replicate the English experience, in which manufacturing continued to absorb excess farm labor for half a century, China has already turned to capital-intensive manufacturing. Therefore, some have estimated that manufacturing is unlikely to ever employ more than 15 percent of the labor force and that, like developed capitalist economies, China must rely on a heterogeneous service sector to provide the bulk of new jobs. Moreover, Evans and Staveteig predict that these new service jobs will be bifurcated between knowledge jobs with high incomes for an educated minority and semiskilled jobs with low rates of return on labor for the majority (see Chapter 5 for a full discussion). Recent wage disparities by sector and occupation support such predictions. Between 1986 and 2000, the average wage in mining and quarrying industries dropped from 16 percent above the national average to 11 percent below, whereas in the real estate sector average wages in 2000 exceeded the national average by 35 percent, in banking and insurance sector they exceeded by 44 percent, and in scientific research and technical services by 45 percent (Wang 2008, Chapter 2).

Nor has the rapidly expanding economy benefited men and women equally. As Philip Cohen and Wang Feng explain in Chapter 3, male-female wage gaps have widened as a result of expansion of the market economy and changes in state policies, with the largest disparities appearing in private sector jobs in cities with highest incomes and fastest growth rates. In China's shrinking public sector, however, state controls continue to equalize income between men and women.

At the end of their analysis, Cohen and Wang suggest that to identify the actual mechanisms of segmentation and differentiation that intensify gender inequalities in market-dominated employment, scholars should look to the microcontext of specific occupations. In Chapter 4, Eileen Otis does precisely that by drawing on her ethnography of service workers in one Beijing luxury hotel to illustrate how the employment practices of post-socialist workplaces systematically heighten distinctions and disparities of gender. Thus, like Charles and Grusky (2004), Otis finds that manual jobs

are horizontally segregated by sex and guided by gender essentialism that "legitimizes unequal access to skills, wages, and organizational mobility" and valorizes vertical managerial-professional trajectories as associated with male authority (see Chapter 4 for a full discussion).

## POVERTY

Regardless of the exact metric one uses to measure poverty, one of the most positive results of China's economic reforms has been the dramatic drop in the number of people living in extreme destitution (Sen 2006). For example, using a Chinese government definition of poverty as per capita income of less than 101 yuan (\$12.50 by official exchange rates) per year in 1978 and 626 yuan (\$77.90) per year in 2000, the poverty count fell from 250 million people (or 31 percent of the population) in 1978 to 32 million (just under 4 percent) in 2000 (Park and Wang 2001). Raising the poverty threshold to that of the World Bank's one PPP dollar a day, the results are still impressive. In 1980, 76 percent of the rural population lived on less than a dollar a day; by 1988 the percentage had plummeted to 23 percent, and by 2003 only 9 percent lived at such hardship (World Bank 2005). One qualifier to this story of dramatic improvement, however, is that approximately half the decline since 1980 occurred in the first few years of the reform. Had the rates of economic growth been more balanced across urban and rural China after 1988, it would have taken ten years, not twenty, to bring the rate down below 10 percent (Ravallion and Chen 2004). Thus, while the aggregate trends document a major reduction in poverty, the uneven pace of progress highlights the complexity of the causal explanations and suggests that institutional impediments and policy choices were as integral to understanding poverty reduction as were macroeconomic growth or structural change in labor markets.

In government reports, urban poverty remains statistically trivial. However, as temporary layoffs of state industrial workers have hardened into long-term unemployment and as urban labor markets for semiskilled service and construction jobs open up to rural migrants, a significant segment of the urban population now confronts persistent economic hardship and insecurity.<sup>9</sup> While the absolute decline after 1978 is substantial, it appears that after two decades of nearly double digit macroeconomic growth, China has settled at an overall poverty rate that some economists believe exceeds that of Egypt and Indonesia (Khan 2005). Moreover, we would note that a focus on absolute poverty ignores both the critical situation of the near-poor—whom some estimate are two times as numerous as the official poor (Hussain 2003)—and the issues of social exclusion and reproduction of inequality.

In the Chinese countryside, where poverty is still most concentrated, the poor and near-poor are members of households in regions where prices for grain are falling or where low prices for natural resources have depleted local investment in nonfarm jobs (Khan 2005). More jobs and higher paying jobs are the keys to eliminating poverty, but over the decade of the 1990s, even as national GDP surged, lackluster job growth in the poorest counties prevented the most desperate from moving beyond subsistence. In addition, households in better-endowed and economically dynamic regions have recently become impoverished because of natural disasters or personal catastrophes for which postsocialist China provides no meaningful safety net. In particular, the newly impoverished rural residents of the twenty-first century often come from families who fall into penury because they have exhausted savings to pay high medical charges in the now dominant, for-profit, fee-for-service health care system (Wang 2004).

In urban areas, the poor live in households headed by less-educated men who work outside the state sector and in households with unemployed members (Wang and Tai 2006; Meng et al. 2007). Between 1995 and 1999 urban state and collective enterprises reduced their payrolls by more than 41 million, and by 1999, 29 percent of the 1995 jobs in the public sector had disappeared, largely because of ownership reorganization (Khan 2005). Initially, it appeared that the primary losers would be women over the age of forty, but as privatization intensified and barriers to rural migration fell, urban men of all ages lost jobs to healthy and ambitious youths who had left farming (Khan 2005; Hussain 2003; Park et al. 2006). As in rural areas, another group of newly poor comes from households with heavy medical expenses. In sum, the individual and household pathways to destitution appear to be converging across the rural-urban divide with a speed that was unimaginable even ten years ago.

At the turn of the twenty-first century, a child born in the city still had a better chance to reach university. Wages from farm work were below those of industry, and rural migrants faced economic discrimination and social exclusion in the cities (Davis 2005; Khan and Riskin 2005; Liang and Ma 2004; Research Group for Social Structure 2005). Nevertheless, the material circumstances of urban and rural residents no longer were as distinct as in the socialist era and those on the lower rungs of the urban ladder no longer uniformly stood above all those in the villages. In 2002, 11 percent of those in the wealthiest income decile lived in rural areas, as did 26 percent of those in the eighth highest decile (Li, S. 2003). The upwardly mobile rural citizens now surpass the emerging underclass of urban China.

As the postsocialist state retreated from management of the economy, it also authorized privatization and commercialization of education and medical care previously provided as decommmodified social services. For the

poor and near-poor, this recommodification created new forms of exclusion and disenfranchisement. During the 1970s China was the premier example of how low-cost but comprehensive public health could reduce mortality rates close to those of a middle-income country (Sen 2006). By 2000 total spending on health care reached 5.7 percent of GDP, a share that slightly exceeded the world average of 5.2 percent of GDP. Medical infrastructure and the training of medical professionals were superior to the standards of the 1980s, and in coastal cities many hospitals offered care comparable to that of the United States or OECD countries (Wang 2004). However, despite increased spending and higher quality medical care, gains in mortality rates and life expectancy lagged behind the gains made by a poorer country like Sri Lanka, and the incidence of infectious diseases such as tuberculosis, viral hepatitis, gonorrhea, and schistosomiasis actually rose (Wang 2004). As Yong Cai notes in this volume, WHO recently ranked China at 141 out of 191 nations in terms of overall performance of health care (see Chapter 10 in this volume). In postsocialist China, inequality of health outcomes also increased. Between 1982 and 2000, national estimates of life expectancy at birth improved but the gap between provinces remained high and the variation at county level was particularly pronounced. In 2000 the gap between counties with the highest life expectancy (80.8 years) and those with the lowest (46.0 years) rivaled the global gap between Japan (81.6 years) and Niger (46 years) (see Chapter 10 for a full set of comparisons).

Rising disparities in access to educational opportunities and in quality of education are among the root causes of social inequality and poverty in China, as elsewhere. Moreover, reducing the disparities in the quality of education or removing the financial barriers to access have no simple or quick solutions. In Chapter 11 Emily Hannum and Jennifer Adams use detailed surveys on school children in rural and migrant communities to demonstrate how children living in the poorest communities face multiple disadvantages. Not only can their parents rarely afford the fees for secondary education, but their communities also cannot provide the quality of equipment and teaching staff necessary to succeed in the competitive exams that allocate access to further education. Furthermore, because children in the poorest communities soon surpass their parents' level of education, they are additionally handicapped in comparison to wealthier rural children and most urban children in terms of parental guidance and advice. The educational barriers to children from the poorest families did not originate in the economic reforms. Nor has the Chinese government ignored the disparities. In fact, during the 1990s, government funding increased substantially, and by 2004 the government had significantly reduced fees charged for the first nine years of school. However, direct costs to parents are not the only barriers to educational success, and the postsocialist economy of rural and urban

China increasingly rewards those with the best educational credentials and highest educational achievement. Unlike the inequities in access to affordable medical care, marketization and privatization did not create new barriers, but they did greatly increase the rewards to the winners in educational competitions.

## WEALTH

During the socialist era, Chinese families and individuals had few opportunities to accumulate wealth. In fact, because the regime explicitly collectivized or expropriated real estate, artwork, or objects of significant monetary value, we assume that variations in wealth narrowed more quickly than those in income after 1949 and remained low across the socialist era. Although no national-level data reliably calibrate the distribution of wealth, changes in the rental value of housing can serve as proxies for changing concentration of wealth, and scrutiny of the processes by which land and dwellings are recommodified can identify the institutional practices that shape accumulation of wealth in the context of communist capitalism (see Chapters 2, 6, 7, 8, and 9 for more detailed analysis).

In the first decade of decollectivization, families in rural areas invested heavily in home construction, and national survey data document a major increase in the Gini ratio for rural property income from 0.543 in 1995 to 0.777 in 2002 (Khan and Riskin 2005). However, while the Gini coefficient for property income increased, there was little change in the Gini coefficient for either net farm income or net income from household nonfarm activities, suggesting that as the rural economy abandoned socialist institutions, rural wealth became more unevenly distributed (Khan and Riskin 2005).

In urban China, value of homes as personal property or in terms of rental value also provides a metric for assessing the distribution of wealth. Between the mid-1980s and 2000, the share of urban households in owner-occupied units rose from about 10 percent to over 75 percent (Davis 2003; Wang 2003). But because the primary routes to ownership were sales of publicly owned flats to sitting tenants, home ownership initially reset the clock of wealth distribution and equalized rather than polarized household wealth (Khan and Riskin 2005; Meng 2007). More recently, as the real estate market matured, new inequalities have clearly emerged in terms of resale value.<sup>10</sup> In 2005, the Blue Book of the Chinese Academy of Social Sciences reported that urban households in the top income decile owned 50 percent of the wealth in 2004, while those in the bottom decile held only 1 percent (Lian 2005: 21). We would predict that further accumulation brought by a booming stock market and escalating urban housing prices in recent years will further distinguish the Chinese population between a

wealthy strata whose wealth derives from ownership of capital or property and a majority who rely on their labor.

Urban home ownership is only one example of how ties to organizations and relationships originating in the socialist era shaped subsequent inequalities of wealth in the capitalist era. In the countryside, the best example has been the capitalization of land owned collectively by village residents. Between 1987 and 2001, more than 7 million acres of previously arable land moved into nonagricultural use and an estimated 40 to 60 million farmers lost their land-use rights. Local governments, businesses, village organizations, and rural families all participated in the process of the transformation, but local officials reaped a disproportionate share of the profits. Using data collected in Zhejiang province between 2001 and 2003, Zhou Feizhou describes how local officials exploited their political control over land transfers to expropriate the profits from fellow villagers who were legally entitled to a share of the profits on a per capita basis. (See Chapter 8 for full discussion.) In one county, he found that compensation to villagers and rural collectives accounted for only 7 percent of the total offering price. Whereas some households benefited subsequently from renting out houses and participating in nonagricultural activities, most became landless urban residents. In a parallel fashion, many urban workers have lost out to managerial cadres and new capitalist owners during the sale of previously publicly owned industrial assets to individuals under the mantra of property rights reform. In the absence of a Russian-style privatization, China has generally avoided the creation of an oligarch class. Yet the differences in the pace between China and other formerly socialist countries in their respective processes of privatization should not obscure an important similarity in the advantaged access to acquiring valuable “public” property from the socialist economy among the politically powerful.

## PROPERTY, OPPORTUNITY, AND THE DURABLE PARTY STATE

Even as privatization, commodification, and integration into the global economy have transformed the Chinese society, one critical structural parameter of the socialist era continues. Thirty years after the death of Mao, China remains a “durable Communist party-state” (see Chapter 12 for discussion of how the party-state still shapes occupational mobility). Thus, contrary to the early predictions of the decline of economic returns on political influence (Nee 1989), data through the late 1990s document continued economic returns to individual-level political capital in both urban and rural China (Bian, Shu, and Logan 2001; Davis, Bian, and Wang 2005; Walder 1995a, 2002; Zhou 2004). It is also noteworthy that the party has recently



focused recruitment among the wealthiest industrialists and among students at universities while generally ignoring farmers and manual workers (Rosen 2004). Indeed, the emerging alliance among political, economic, and intellectual elites under the mantle of “stability” has prompted some Chinese scholars to predict a social structure that will become ever more clearly bifurcated between the powerful and the powerless (Sun 2006).

How does the persistent political power led by the Communist Party adapt itself in China’s postsocialist economy? Two studies in this volume, one at the macrotheoretical level and the other at the microempirical level, address the question. In his extension of Aage Sorensen’s concept of rent derived from property right transactions, Liu Xin (Chapter 6) argues that the relationship between state political power and property rights continues to be the central mechanism of social stratification even in a postsocialist economy. Concurring with those who have advanced the argument for power persistence (Bian and Logan 1996; Rona-Tas 1994), Liu finds that a cadre class of party officials occupies a privileged status in postsocialist China. But in contrast to previous scholarship, Liu identifies the causal mechanism as contractual principal-agent relationships that allow those in positions of bureaucratic authority to extract excessive rents, an argument that finds ample empirical support and further elaboration in a recent book on urban inequality (Wang 2008). For Liu these administrative principal-agent relations coexist with market power and markets are actually so embedded in the socialist bureaucratic authority structure that they set market entry rules and create rent-seeking space. Especially at the local level, officials directly manage the private sector, and in the absence of democratic supervision or rule of law, they exercise their “self-serving rent-seeking ability.” Therefore, the Chinese system of stratification can best be understood as a multidimensional system that includes redistributive power, rent-seeking ability, and market power.

The durable party-state rule also rests on its ability to improvise in face of fragility and internal contradictions, as demonstrated in Xueguang Zhou’s case study of five villages in north China (see Chapter 7). Focused on political processes by which village-level cadres negotiate central government payments to farmers who agree to take land out of corn cultivation to reduce soil erosion and stabilize slopes, Zhou, like Liu, finds that corporatist institutions are still the major organizing basis for resource distribution and mobilization. However, he doubts their long-term survival because he finds that the accelerating privatization of collective firms and new freedoms to migrate from the villages fundamentally alter the group boundaries and identities that sustain corporate state institutions. In particular, he finds the ties of kinship that are not “dictated by the principles of state socialism” are particularly central. Unlike Liu’s own empirical work (not presented

in this volume), which focuses on urban surveys, Zhou relies entirely on ethnography in one rural county. One possible interpretation of their different explanations, therefore, is that, whereas a rent-seeking model that places the political class at the apex may identify the fundamental processes of stratification in Chinese cities, it does not apply as well to village communities where family farms and self-employment dominate the opportunity structure. People living in rural areas where power and resources operate at household and village levels may experience what Zhou calls “institutional involution,” in which kinship loyalties and identities replace the socialist corporatist basis of redistribution.

#### CLASS FORMATION AND CLASS CLOSURE IN POSTSOCIALIST CHINA

As the economic, political, and social institutions of postsocialist China continue to evolve, the increasing income gap and the altered pathways to wealth have revived interest in class identities and the process of class formation, a subject that many Chinese tried to erase after the discrimination and horrors of the state-dictated class labels and the orchestrated class struggles of the Cultural Revolution. During the Mao period bureaucratically assigned class labels identified every individual in China, creating the basis of social and political control and functioning as tools of political persecution. In a sharp reversal of Maoist criteria of political stratification, the post-Mao leadership renounced the earlier system of class labels. With relatively little fanfare, twenty years of politically defined social stratification disappeared; henceforth, politicized class labels would no longer determine life chances.<sup>11</sup>

Most previous work on social stratification in postsocialist China, including our own, has focused on explaining income inequality, most notably the relative returns on education and political position (Bian and Logan 1996; Davis 1995; Gerber and Hout 1998; Nee 1989, 1991, 1996; Rona-Tas 1994; Wu 2002; Zhou 2004.) Unequal incomes, not the processes of class formation and closure, received most of our attention. In part we privileged debates over income because there had not been time for intergenerational shifts in class position to solidify and because we lacked extensive data on career mobility for the years after 1998 (Bian 2002a). However, now that the postsocialist era has lasted as long as the socialist, it is possible to identify core elements of the new social order and the emerging institutional dynamics of social stratification. Three elements stand out.

First, China has shifted from a status-ranked society toward one in which economic assets trump. Second, the sharp urban-rural divide has eroded, and for the first time since the mid-1950s, those on the lowest rungs of the urban income ladder stand below those at the top of the rural ladder. Third,



income is highest for those who have access to capital, and the previously favored socialist proletariat has emerged as a relative loser. In short, China appears to be converging toward a pattern of inequality found throughout other market economies in which the returns to capital exceed those to labor and capital is more mobile than labor.

At the same time as the outline of the postsocialist system of stratification converges toward those of more established capitalist economies, three features of contemporary Chinese society serve to slow the solidification of a new order. First, rapid economic growth has created and continues to create multiple opportunities for social mobility. In a nationwide survey in 2001, researchers from the Chinese Academy of Social Sciences found that among those who started work before 1980, 32 percent achieved higher occupational rank than their fathers; among those who started work after 1980, 41 percent were upwardly mobile. Of those employed between 1980 and 1989, only 30 percent changed jobs and only 19 percent gained status in the move. Of those employed between 1990 and 2001, 54 percent changed jobs and 30.5 percent gained in status (Research Group for Social Structure 2005: 217). While job mobility remained somewhat lower than in other market economies, the acceleration over the 1990s created significant gains among the youngest cohorts in urban labor markets (Bian, Chapter 12 in this volume). Nationwide, millions of rural-born youths continue to leave their villages each year for new lives in the cities (Liang and Ma 2004). At the same time the success of the one-child policy among urban couples will continue to reduce the relative proportion of new entrants of urban origins for another 20 years (Wang 2005). For the immediate future, therefore, we would expect rural newcomers to transcend the social and economic status of their parents. The fate of those born to urban manual workers who fail to gain college education, however, is less optimistic because they are forced to compete with their rural peers for low-skill service jobs.

Second, continuities with socialist practices embedded in the durable party-state and a hybrid property rights regime maintain social categories and group memberships that cut across class divisions (Wang 2008). These categories and memberships not only shape distribution of job opportunities and access to capital but also create identities and loyalties that segment Chinese society. One such group is the rural migrants to large cities. Two decades after the initial liberalization of migration controls, rural migrants continue to face economic and social discrimination. In terms of welfare benefits and political rights, most remain "floaters" on the surface of China's urban society (Solinger 1999a; Wang, Zuo, and Ruan 2002); economically, they occupy a middle position between the urban born and those still working in villages (see Gao and Riskin, Chapter 2). In addition to the broad social distinctions of urban, rural, and migrant, the population is also segmented

by geographic location, economic sectors, and work organizations that partially homogenize access to political power and economic resources (Wang and Wang 2007; Wang 2008). Chinese citizens therefore confront a paradox. At one level, they map and acknowledge the sharp income inequalities for society as a whole. At another, they recognize and often accept the smaller degree of inequality in their workplaces or neighborhoods (see Han and Whyte, Chapter 13 in this volume; Wang 2008).

Third, for several reasons the sense of class-consciousness crucial for a class to transform from "a class in itself" to "a class for itself" remains weak, and the two features of the postsocialist Chinese society just described both contribute to undermining class-consciousness formation. As shown by the survey results analyzed in Chapter 13, those economically at the bottom of the society are not those most likely to reject the reforms or express anger at current levels of inequality. To the contrary, those in the bottom deciles express more optimism than those with higher incomes, in part because their reference frame is with their own past and in part because of microlevel equality. Case studies in rural China similarly find those who have been "losers" refuse to see themselves as voiceless or victimized. In Chapter 9 Zhang uses land disputes in Inner Mongolia, Hebei, and Zhejiang to identify the claim makers and their logics of entitlement. In contrast to legal and economic criteria that privilege clear property rights, she found that cadres and villagers negotiated in a fluid sociopolitical framework in which claims to property are central to the postsocialist order, and local interests rather than universal rules determine what is considered just or fair. In a less optimistic reading of perceived injustice, Ching Kwan Lee (Chapter 14) concludes that it is inequity, not inequality, that fuels discontent. While aware of the large gap in incomes, her Beijing respondents were most concerned about the immoral ways in which certain groups of people have gained their new wealth and how the new postsocialist order has created new inequalities in access to medical care and education. Also of note is that across the income spectrum Lee's respondents looked for redress from the state, not from horizontal solidarities forged in the market or voluntary associations. Certainly the continued control of the Communist Party over public media and its opposition to any alternatives to party-controlled organizations reduce the opportunities for formation of oppositional class-consciousness. But Lee's results suggest that many citizens also continue to accept a world in which they first turn to the party-state for redress.

Contemporary patterns of poverty and wealth have their roots in China's socialist period. But viewed in longer historical perspective, the rapid economic expansion since 1978 represents only one brief interlude in China's long history. Furthermore, as we are reminded by R. Bin Wong's sweeping review of China's experiences since the eighteenth century (Chapter 15),

there are intriguing parallels with a more distant past that further temper expectations of convergence toward a more generic twenty-first century postsocialist society. Intense commercialization, global trade, rural-urban economic integration, and a unified economic and political elite are not unique to the contemporary period; these elements also characterized the Chinese political economy during the late imperial era. Relevant to understanding dynamics of class formation and class closure in those centuries was the absence in China of the sharp class divisions that had emerged during the commercialization of English agriculture as well as the absence of clear social differentiation between those who worked the land and those who worked in rural industry. Thus, in contrast to the English case that was so central to the nineteenth- and early twentieth-century Western theories of class formation, Chinese society revolved around a family economy in which craftwork remained in households that simultaneously engaged in farming. At the same time few legal-institutional barriers stood between people of different economic or social positions, and traditional Chinese elites were also more integrated with nonelites than elites in either northern European societies or Tokugawa Japan. In addition, officials in premodern China actively promoted agriculture in poor areas of the empire and systematically regulated migration to balance regional disparities and alleviate absolute poverty (Wong, Chapter 15 in this volume). Thus, the patterns we see today of support for the state as an investor and as a redistributor, tolerance of inequality in the face of opportunities for upward mobility, and strategies of advancement built around enduring groups of networked kin may be as rooted in China's long history as in thirty years of socialism or current economic and political configurations of communist capitalism.

China's postsocialist economic growth has drastically altered the worldwide mapping of wealth, poverty, and inequality. At the same time, the social and political processes shaping and defining the dynamic redistribution provide fertile ground for us to rethink the theoretical approaches to the study of poverty and wealth. The earlier wave of research in postsocialist societies focused overwhelmingly on determinants of income inequalities and revolved around the question of what types of *individual* characteristics were rewarded more during the transition to markets than under the socialist redistributive regime (Bian and Logan 1996; Gerber and Hout 1998; Nee 1989, 1991, 1996; Nee and Cao 1999; Rona-Tas 1994; Wu 2002; Zhou 2000a). In contrast, in explaining the emerging trends of poverty and wealth in China, authors in this volume go beyond questions about income inequality and debates over market transition. They focus instead on multiple outcomes, multiple actors, and the complex processes embedded in the larger institutional context. Inequality is generated as individuals arrive at a particular social position within a preexisting structure and then evolve as they

progress across the life course within changing social and economic institutions. Such structures are products of historically and culturally defined processes created by contemporaneous political, economic, and social forces. It is such historical and structural forces that make inequality durable.