



From institutional segmentation to market fragmentation: Institutional transformation and the shifting stratification order in urban China



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ABSTRACT

Focusing on the changing roles of organizations, this study develops an institutional framework to examine the shifting stratification order since the mid-1990s in urban China. We argue that, after the mid-1990s, the Chinese state led a dual process of institutional transformation. On the one hand, the state dismantled the socialist redistributive system and broke down institutional segmentation based on organizational ownership and bureaucratic rank. On the other hand, the state developed different markets with various paces and strategies, resulting in fragmented market environments. In this context, reformed organizations interacted with heterogeneous market conditions to exert different impacts on multiple dimensions of social inequality. We draw empirical evidence from two national survey data collected in 1994 and 2003 during a critical period. Our findings show that the foundation of the stratification order has shifted from institutional segmentation to market fragmentation in urban China. This study calls for substantive institutional analysis to better understand the intricate landscape of social inequality in transitional economies.

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China, the world's largest transitional economy and the second largest economy overall, has embarked on the economic reform since the early 1980s. While it has achieved spectacular economic development within three decades, it has also transformed from one of the most egalitarian societies to one with an extremely high level of social inequality. Its Gini coefficient increased to 0.45 by 1996, putting China on par with the United States (Wang, 2008:7); and it further reached an alarming 0.561 by 2003 (Liu, 2004).

Stimulated by Nee's (1989, 1991) market transition theory, there has been a heated debate on the changing stratification patterns in China and in other former socialist countries (e.g., see the "Symposium on Market Transition" in the *American Journal of Sociology*, 1996, Vol. 101, No. 4; for reviews, see Bian, 2002; Heyns, 2005). While this debate has generated a sizable literature, it has weaknesses and faces challenges. As a result, both empirical inquiries and theoretical development are stagnant in recent years. Empirically, most extant studies in the English literature used the data collected before China's radical reforms and institutional transformation in the mid-1990s. In a sense, they have focused on the early stage of the market transition in China characterized by an incremental change from the command socialist system (Qian, 2000).

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Interestingly, far less attention has been devoted to the dramatic shift in the stratification order after the mid-1990s along with profound institutional transformation.

Theoretically, previous studies in the debate tended to focus on returns to human and political capital in individuals' socioeconomic attainment, but devoted insufficient attention to institutional changes and structural factors in the market transition process (Wang, 2008). This is problematic as “[t]he variability of market economies warns against attempts to predict changes in inequality without first specifying the kinds of enterprises and other institutions that characterize the emerging market economy” (Walder, 1996:1060). In this light, it is crucial to examine the changing role of work organizations in the market reform because under the *danwei* (work unit) system they served as the pillar to redistribute all kinds of socioeconomic rewards in urban China (Bian, 1994; Walder, 1986, 1992; Whyte and Parish, 1984; Zhou, 2004). Along with market transition and organizational reforms, some recent studies have shown the persistent importance of work organizations and highlighted organizational performance as a key factor to affect employees' economic well-being (e.g., Wang, 2008; Wu, 2002; Xie et al., 2009; Xie and Wu, 2008). Despite these notable endeavors, “it is unclear as to what extent the findings reflect the change or continuity of the work unit system” (Wu, 2013:8). Moreover, via the lens of organizational changes, we need to develop a broader theoretical framework to capture the fundamental institutional changes and evolving stratification order in urban China.

Profound institutional and organizational transformations after the mid-1990s have exposed these glaring gaps in empirical and theoretical inquiries. Since the mid-1990s, the Chinese state has implemented a series of radical reforms, such as organizational reform (the Company Law in 1994), labor reform (the Labor Law effective in 1995), and fiscal reform (the revenue-sharing system in 1994). Another significant milestone was China joining the World Trade Organization (WTO) in 2001. With accelerated market transition, the *danwei* system as the organizational foundation of the socialist economy has been dismantled. A large number of state-owned enterprises (SOEs) and collective enterprises have been restructured and privatized. From 1996 to 2003, the number of SOEs declined sharply from 113.8 thousand to 25.3 thousand (declining by 78%), and the number of collective firms declined from 1591.8 thousand to 141.7 thousand (declining by 91%) (Liu et al., 2008:58).

These institutional and organizational changes have significantly reshuffled the stratification patterns. For instance, while full employment and job security were a defining feature of the redistributive economy, urban China has witnessed massive unemployment since the mid-1990s. From 1995 to 2001, 43 million workers were laid off (Giles et al., 2006). On another front, while work organizations in the state sector used to provide free housing for their employees under the redistributive economy, housing has been commodified and privatized through work organizations. Housing ownership increased from 15% in 1992 to over 80% in 2002, which exceeded that of the United States (68% in 2003) (Davis, 2005, 2006).

These dramatic changes since the mid-1990s have raised a set of new research questions. In particular, what are the characteristics of the emerging stratification order? What are the changing roles of organizations in affecting multidimensional social inequality? To address these research questions, we develop a new theoretical framework to shed light on the shifting stratification order based on comparative analyses of two national survey data collected ten years apart (1994 and 2003). Investigation of the shifting stratification order in this period is crucial because it has largely shaped the inequality patterns into the 21st-century urban China.

Our study makes both theoretical and empirical contributions to the literature. Theoretically, we shift the focus from the individual characteristics (returns to human vs. political capital) to the institutional foundation. We draw insights from the “institutional embeddedness” perspective (e.g., Polanyi, 2001 [1944]) and institutional analyses of social stratification (e.g., Brady, 2009; DiPrete, 2007; Moller et al., 2003; Walder, 2003; Wang, 2008) to examine how institutional transformation has reshuffled the stratification order in urban China. We argue that the stratification order is embedded in specific institutional environment and socioeconomic system and can be overhauled by the state's socioeconomic policies. In this light, we scrutinize the dual institutional transformation of dismantling the socialist redistributive system and constructing different kinds of markets in a series of radical state reforms after the mid-1990s. In our substantive institutional analyses, we demonstrate that the institutional foundation of social stratification in urban China has shifted from organizational segmentation under the *danwei* system to market fragmentation characterized by heterogeneous market conditions across different domains. In particular, we take the changing roles of organizations in social inequality as our analytical focus. Work organizations under the *danwei* system had been the micro-foundation of social stratification in the socialist redistributive economy, and they were the center of state reforms in the mid-1990s. Via the lens of the changing roles of organizations, we aim to capture the fundamental institutional changes and the emerging stratification order in China.

Consistent with our theoretical argument, we extend the empirical inquiry beyond the income as the primary focus in the market transition debate. While a focus on income is parsimonious in a largely unified socioeconomic system (e.g., under the redistributive *danwei* system), it portrays an incomplete picture with the emergence of fragmented markets governed by diverse allocation mechanisms. Therefore, following recent endeavors (e.g., Wu, 2013; Xie et al., 2009), we move beyond income disparity to investigate and contrast the roles of organizations in other aspects of social inequality—unemployment status, housing, and social welfare benefits—that have been embedded in fragmented market environments since the mid-1990s. Analyses of multidimensional social inequality show that, while organizational characteristics (particularly ownership structure and bureaucratic rank) exerted a largely consistent impact on social inequality under the redistributive system, they show different effects on multiple dimensions of social inequality in fragmented markets.

In short, our study examines how social stratification order is embedded in specific institutional and market environments and how it has been reshuffled along with dramatic state reforms and institutional transformation. Although our study is situated in China's specific context, this institutional embeddedness perspective has broad implications. Our study sheds new

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