Social Science Research 46 (2014) 85–99

Contents lists available at ScienceDirect

Social Science Research

journal homepage: www.elsevier.com/locate/ssresearch

Public housing into private assets: Wealth creation in urban China

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ARTICLE INFO

Article history:
Received 15 October 2012
Revised 14 February 2014
Accepted 17 February 2014
Available online 28 February 2014

Keywords:
Privatization
Market transition
Inequality
Wealth

ABSTRACT

State socialist economies provided public housing to urban citizens at nominal cost, while allocating larger and better quality apartments to individuals in elite occupations. In transitions to a market economy, ownership is typically transferred to existing occupants at deeply discounted prices, making home equity the largest component of household wealth. Housing privatization is therefore a potentially important avenue for the conversion of bureaucratic privilege into private wealth. We estimate the resulting inequalities with data from successive waves of a Chinese national income survey that details household assets and participation in housing programs. Access to privatization programs was relatively equal across urban residents in state sector occupations. Elite occupations had substantially greater wealth in the form of home equity shortly after privatization, due primarily to their prior allocations of newer and higher quality apartments. The resulting gaps in private wealth were nonetheless small by the standards of established market economies, and despite the inherent biases in the process, housing privatization distributed home equity widely across those who were resident in public housing immediately prior to privatization.

1. Introduction: Inequality in transitional economies

There are two broad streams of theory and research about the transformation of inequality during transitions from state socialism. The largest stream is focused on the question of how rewards to individuals change as market competition supplants bureaucratic allocation. Some of this research employs equations similar to those used to test theories of human capital to detect changing income returns to political rank (current or past), party membership (current or past), education, experience, and occupation (Bian and Logan, 1996; Gerber, 2000; Gerber and Hout, 1995; Hauser and Xie, 2005; Liu, 1998, 2003; Nee, 1989, 1996; Walder, 2002; Walder and Nguyen, 2008; Wu and Xie, 2003; Xie and Hannum, 1996). Others pose similar questions about status attainment and occupational mobility, and estimate changing probabilities of entering different elite positions as a market economy emerges (Eyal et al., 1998; Hanley et al., 1995; Li and Walder, 2001; Walder et al., 2000; Wu and Treiman, 2007).

A second, smaller stream of research focuses on a different question: the ability of communist era elites to obtain ownership or control of public assets in the course of market reform. This research is not about changing returns to individual characteristics due to market processes. Instead, it is about political and organizational processes at the point

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http://dx.doi.org/10.1016/j.ssresearch.2014.02.008
0049-089X/

in time that public property is transferred to new owners. The central question is the value of the "incumbency advantage" (Alexeev, 1999): the ability of communist-era elites to convert their bureaucratic privileges into money form by obtaining control over public property as it is transferred to new owners. Most of this work has focused on the ability of elites to obtain control over state enterprises (McFaul, 1995; Róna-Tas, 1994). Cross-national differences have been attributed primarily to political processes: the extent of regime change, the speed and timing of privatization, and the regulatory environment within which it takes place (Walder, 2003). Case studies that compare outcomes across economic sectors within single countries have demonstrated that the outcomes can vary considerably due to the features of the assets and enterprises involved (Walder et al., 2013). It is difficult to pursue this work with the same level of rigor as individual-level analyses of income determination and occupational mobility. Ownership stakes in large enterprises are limited to a small minority of individuals, and ownership forms and the identity of owners are often intentionally vague. Surveys of enterprises rather than households may be the most appropriate way to test these ideas, but they present major sampling difficulties, and enterprises are constantly being established, closed, or merged. The few such studies that have been mounted successfully have focused on ownership forms rather than the identity of the owners (Hanley et al., 2002; Stark and Vedres, 2006).

There is, however, one type of asset that is very widely dispersed, measurable at the level of the household, distributed according to bureaucratic rank, almost universally privatized, and which becomes the largest single component of household wealth: housing. Housing is uniquely suited to testing claims about the incumbency advantage. Some of the earliest and most influential research on inequality under state socialism focused on housing inequality. Based on survey data that demonstrated large occupational inequalities in housing size and quality in public housing, Szelényi (1978, 1983) built a theory about inequality in "redistributive" economies that has heavily influenced subsequent theory and research (Nee, 1989). Subsequent work replicated these early findings, and found that individuals with high political rank and elite occupations were allocated larger and better quality apartments (Dániel, 1985; Logan et al., 1999; Walder, 1992; Zhou and Suhomlinova, 2001).

Housing also lends itself to systematic investigation because it is a household asset and has been extensively privatized in transitional economies. No such economy, regardless of its form of government, has found it socially or politically feasible to expel families from their homes as public housing is privatized. Instead, existing tenants are typically given the right to purchase their homes at deeply discounted rates (Guriev and Rachinsky, 2008; Yemtsov, 2008).

By the year 2000 most transitional economies had urban home ownership rates of 80% or above, much higher than the 50–60% typical of developed market economies (Yemtsov, 2008: 314). Even at the lower rates of ownership in developed market economies, housing and real estate are still the largest single asset class—in the United States, 52% of all assets in 2002 (Gottschalck, 2008). Housing privatization generates extensive holdings of private assets for the first time. In the former Soviet Union and Eastern Europe an estimated 1.1 trillion US dollars in assets were transferred to households during the 1990s (Yemtsov, 2008: 313). Housing privatization therefore promises unique leverage over questions about the direct conversion of bureaucratic privilege into monetized wealth.

2. Housing privatization: conversion of rank into wealth?

Because past research has focused on housing as symbolic of the kinds of inequalities typical of bureaucratic distribution, there are reasons to suspect that privatization of housing is potentially a major source of elite advantage during a market transition. However, there are three reasons to question the proposition that housing privatization gives elite households a large windfall of household wealth. The first is that the subsequent market value of the larger and better quality apartments enjoyed by ranking bureaucrats and professionals may not be particularly large. Past studies have typically shown that before privatization, the households of those in elite occupations had more per capita housing space, more rooms, and more amenities like private bathrooms and kitchens. These same households are also likely to live in more desirable neighborhoods in better locations. These inequalities may have seemed glaring in the context of a system that claimed to enforce equality via bureaucratic distribution, but occupational differences in housing conditions may nonetheless have been much smaller than in established market economies, resulting in relatively muted inequalities in wealth after privatization. Until the housing stock has been privatized and obtains a market value, it is unclear how large the resulting inequalities of wealth will be.

The second reason is that other dimensions of inequality—in particular, across organizations—may have muted inequalities due to occupational rank. Past research on planned economies has shown that differences in bargaining power across organizations of different size and rank translated into marked differences in the living standards of their employees, including differences in the size and quality of apartments (Bian, 1994; Walder, 1992). Research on transitional economies has shown that these organizational differences may persist well into the process of market reform (Wang, 2008). The "incumbency advantage", therefore, may inhere as much to the rank and power of organizations as it does to the rank of individuals so emphasized in prior theories.

The third reason is that inequalities due to privatization depend also on how programs are implemented. If elite households are given preferential access to housing programs, or if the terms are set in a way that favors them, the resulting inequalities in wealth will be larger. This can occur in two ways. Individuals in lower status occupations may be offered the opportunity to purchase their existing homes at subsidized rates less frequently, or the terms of the buyout may be too expensive for them to afford. Such barriers to lower-status household participation in housing privatization will tend to increase the resulting inequalities of wealth.