

STRUCTURAL SEGMENTATION AND SOCIAL STRATIFICATION

The Communist revolution of 1949 marked the beginning of a new regime in China. By 1956, this regime completed its mission of transforming the country's profit-making and nonprofit organizations into publicly owned institutions. The result was a dominant state sector composed of vital industries and firms, and a dependent collective sector of small businesses. Organizations in both sectors were operated by central or local government agencies. Communist party cadres were sent to head these organizations, and party apparatuses were established in them. Not only were economic resources, properties, and products controlled by these work organizations, but they also distributed all incentives. Both state and collective sector workers, who made up 98 percent of the urban labor force for more than two decades, depended on their workplaces for continued employment, promotions, wages, welfare benefits, and housing. Their workplaces were also the source for party membership and political mobility. Individual laborers even depended on the government offices to issue their employment licenses and direct their work and nonwork activities.

This is a study of the impact of work organizations on the social stratification of urban workers in the People's Republic of China. In the modern era, work organizations play a crucial role in social stratification systems in all societies. As Stolzenberg (1978, p. 813) has pointed out, "the jobs they [employers] provide are the primary mechanism by which individuals are distributed among occupations and by which earnings are distributed among persons." In a planned economy such as China's, enterprises run the society (*qiyie ban shehui*). This popular Chinese expression refers to a unique phenomenon in urban China: work organizations provide not only jobs and earnings but also a wide array of goods and services for employees and their families, and these goods and services in-

clude not only material rewards but also ideological and organizational incentives. In the following pages, I reveal the extent to which socioeconomic and political inequalities among Chinese urban workers are generated by their workplaces. Why do work organizations have different abilities and potential for offering labor rewards? What factors determine who gains and who loses in the urban workplace?

Structural Segmentation as a Perspective of Stratification

A useful framework for this study is the segmentation perspective of social stratification. In contemporary sociology, *economic segmentation* is defined as the unequal distribution of resources and opportunities among industries or firms (Wallace and Kalleberg 1981). *Labor market segmentation*, which in part derives from economic segmentation, refers to distinct employment patterns, inequalities in earnings and benefits, and career ladders (Althausser and Kalleberg 1981). In order to theorize about segmentation structures in China, it is necessary to briefly review earlier analyses available on economic and labor market segmentation in market capitalism.

Economic Segmentation in Market Capitalism

Both Marxist and non-Marxist economists credit the profit-seeking behavior of the capitalist enterprise as the underlying force of economic segmentation. Chandler (1962, 1977) argued that the maximization of profits is the reason why small firms merged into giant corporations, and why bureaucratic mechanisms emerged to coordinate these giant corporations. "Multiunit business enterprise replaced small traditional enterprise when administrative coordination permitted greater productivity, lower costs, and higher profits than coordination by market mechanisms" (Chandler 1977, p. 6). Edwards (1979, viii), from a neo-Marxist point of view, argued that profitability is *the* reason behind the transformation from simple forms of control of workers to bureaucratic control: "Hierarchy at work exists and persists because it is *profitable*" (italics in original). According to Gordon, Edwards, and Reich (1982), segmentation analysis is concerned with the connections between capitalist development and working-class life and is generally intended to develop "a sufficient theory of capitalist development."

Institutional economists contend that the consequence of cap-

italist development is a dual economic structure. Researchers have used different terms to describe two distinct sectors: core and periphery (Averitt 1968), concentrated and unconcentrated (Bluestone 1970), planned and market (Galbraith 1973), and monopoly and competitive (O'Connor 1973). According to Hodson and Kaufman (1982), these various terms all apply to the same features of two basic sectors. The core sector (the most commonly used term) consists of firms and industries with a large number of employees, high capitalization, large profits and sales, monopolistic positions in product and labor markets, advanced technologies, high productivity, and high rates of unionization. The periphery sector, on the other hand, consists of firms and industries with a small number of employees, low capitalization, and low profitability and productivity. Although others (e.g., Edwards, Reich, and Gordon 1975; Gordon, Edwards, and Reich 1982) have suggested a "segmentation" model in which more than two sectors are possible, their theoretical interests in devising a model for capitalist development remain primary.

From a Marxist point of view, Gordon, Edwards, and Reich (1982, chap. 1) have argued that economic segmentation was the inevitable result of the historical development of capitalism. To these researchers, the American economy experienced a transition from entrepreneurial to corporative capitalism, or from a competitive to a monopoly economy, roughly between 1890 and 1920. Consequently, in their view, American workers were segmented between jobs in the primary (monopoly) and secondary (competitive) segments, and between independent and subordinate jobs within the primary segment.

Labor Market Segmentation in Market Capitalism

The important question regarding labor market segmentation is: Why do individuals who have the *same characteristics* but are positioned in different segments of the labor market structure enjoy *different sets of rewards*? Institutional economists have offered a "firm ability" theory. They contend that firms and industries with monopoly positions in commodity markets promote sales and profits, and therefore have a greater ability to offer earnings and benefits than do "peripheral" firms and industries. This ability to offer earnings and benefits to workers is affected by firm characteristics such as capital intensity, concentration, production duration, and size.¹ Earnings and benefits are viewed as a mechanism for controlling labor by the capitalist class (Edwards 1979; Gordon, Edwards, and Reich 1982), or as a means of maintaining labor stability, which is

seen to be essential to a firm's productivity (Doeringer and Piore 1971) and long-term profitability (Chandler 1977).

New structural sociologists use a "worker power" theory to argue that selfish capitalists are not so much interested in as constrained to providing more rewards. As Bibb and Form (1977, p. 978) point out, "the economic stratification of enterprises is matched by the organizational power of occupational groups." Union membership, tenure with the firm, skills, occupational licensing, and managerial positions are all seen to contribute, both collectively and individually, to worker power, which in turn generates earnings (Kalleberg, Wallace, and Althausen 1981). Because these forms of worker power are more feasible and effective in monopoly or advantaged firms and industries, it has been argued that structural features of the workplace are "resources" not only for capitalists and management to manipulate workers, but also for workers to bargain with the capitalist and managerial classes for rewards (Hodson 1983, chap. 3).

Many have argued that labor market outcomes are more directly a result of internal organizational dynamics than of economic segmentation (Chandler 1977; Edwards 1979; Baron and Bielby 1980, 1984; Hodson 1983). In contrast to the economic dualists, who emphasize industrial segmentation as causes of labor market inequalities, new sociological structuralists examine internal labor markets along with organizations, classes, occupations, and industries (Althausen and Kalleberg 1981; Baron 1984). Researchers generally agree that there is a direct relationship between internal labor markets and workers' outcomes such as firm tenure, turnover, earnings, benefits, and promotion, but their interpretations about causes and consequences of that relationship differ. Internal labor markets are seen in various ways: as mechanisms to transfer work skills from senior to junior workers to maintain the firm's productivity (Doeringer and Piore 1971); as administrative coordination necessary to promote profits for giant firms (Chandler 1977); as a reflection of market imperfection that favors hierarchical promotions rather than perfectly competitive mechanisms (Williamson 1975); as an effort by the capitalist class to control workers (Edwards 1975, 1979); or as unions' efforts to protect job security, earnings, and benefits for workers (Hodson 1983).

Segmentation Research in Eastern Europe and China

Despite a neo-Marxist position that economic and labor market segmentation are derived from capitalist development, in state

socialist societies where there is a lack of capitalist enterprises and a capitalist class, these types of segmentation may well exist. For example, Hungary's income distribution in the 1970s was a function of its political-economic organizations; it favored government bureaucrats and deprived the working classes in factories and villages (Szelenyi 1978; Jenkins 1987). In Poland, data collected in the 1980s show that the likelihood of workers receiving material incentives was contingent on workers' placement in certain industries and economic sectors (Domanski 1988, 1990). In China, differentials in wages and fringe benefits have existed for workers in the state and collective sectors (Whyte and Parish 1984, chap. 4; Davis-Friedmann 1985; Walder 1986, p. 41). The sectoral difference in income distribution continued to be significant in China through the 1980s (Hu, Li, and Shi 1988; Walder 1990), and workplace identification has become a more desirable way of achieving status than occupation per se for urban workers (Lin and Bian 1991). These various country data suggest that the absence of market capitalism does not rule out the segmentation phenomenon.

The existence of the segmentation phenomenon in Eastern Europe and China does not necessarily mean that economic and labor market segmentation in planned societies are implemented with the same processes and mechanisms as in market societies. These processes are, in fact, either nonexistent or greatly altered in planned economies. First, individual firms in planned economies are not oriented toward profits. Socialist firms operate under bureaucratic rather than market coordination. In a socialist state, the government controls and allocates resources needed for production, assigns projects and output quotas, sets prices of products to meet designated goals, collects all profits, and redistributes income to individuals. Government subsidies are guaranteed to maintain all enterprises.

Second, internal labor markets are largely nonexistent in the planned economies. For example, before 1978 in China, jobs were guaranteed through government assignments, and employers were not allowed to lay off workers. Wages and benefits were centrally regulated, salary increases were determined by state budgets, and career promotions followed ranking systems imposed by central planners. It was only during the economic reforms of the 1980s that internal labor markets were being used for the distribution of material incentives and promotions (see Stark 1986 for Hungarian practices; Walder 1989 and Davis 1993 for China).

Third, worker power in planned economies is limited. In pre-

reform China, job turnover between workplaces was restricted through organizational procedures in order to protect labor stability, as required by central planning (Davis 1990). Also, worker unions were subject to the Communist party, and cooperated with the government and workplace management to control rather than serve workers² (Walder 1986, p. 96). Tenure in the workplace was unimportant, because of low job turnover (Davis 1990). Occupational licensing was nonexistent in the state and collective sectors, and rendered unnecessary because of the bureaucratic allocation of labor (Lin and Bian 1991).

Domanski (1988, 1990) has advanced an explanation of labor market segmentation in Poland. He observed that earnings were higher in the Polish state sector than in nonstate sectors, and higher in the mining sector than in any other manufacturing and non-manufacturing sectors. Domanski explained these wage differentials with a labor shortage argument: the Polish government, with the intent of protecting its state sector, consciously provided material incentives to stimulate the influx of workers into industries and firms "preferred" by the government. A similar argument was offered by Burawoy and Lukacs (1985) for Hungary, where worker benefits were used to discourage the outflow of labor from the Hungarian state sector.

This argument assumes that a neoclassical relation between labor supply and demand existed in Poland and Hungary, which in turn implies that the "worker power" explanation may be plausible for Eastern Europe. Such a relationship was greatly altered in pre-reform China, where oversupply of labor was sustained by the bureaucratic process (Walder 1986; Davis 1990; Lin and Bian 1991). Under these circumstances, interfirm job turnover, when it did occur, was more often the result of workers avoiding potentially negative effects on their careers than having adopted overt strategies for advancement (Davis 1990, 1993). In addition, there were no independent labor unions in China such as there were in Poland. What, then, are the dynamics of the labor process in China?

Workplace Segmentation in Pre-Reform China

Workplace segmentation here is understood as the unequal distribution of resources and opportunities among work organizations. This terminology is preferable to the widely used "economic segmentation" because segmentation processes within a state socialist framework in general, and in the Chinese context in particu-

lar, are indeed less economic than administrative in nature. In fact, I will show how workplace segmentation in pre-reform China stemmed from and was sustained by a bureaucratic process.

System-Oriented Goals and Strategies

A socialist state, unlike its market counterpart, bases its economy on a wide range of public ownership. Since the state has full control over resources, firms become subordinate "work units" of the centrally planned system. Within the Stalin model of high centralization, socialist firms had little motivation to pursue profits; instead, they operated under "soft budget constraints" that led to high production costs (Kornai 1986). Even during the economic reforms of the 1980s, enterprises in Hungary (Kornai 1989) and China (Lin 1989) were still strongly controlled by state bureaucratic processes of decision making. Firms in the United States may have state-sponsored projects and be subject to government pressures and influences, but these capitalist firms are doing business with the government, operating the state-sponsored projects as transactions in market terms. They can negotiate prices of the products to sell to the government in reference to market values, and their business relationships with the government are terminated after the completion of such projects. Enterprises under classical state socialism are in a very different situation. State and collective organizations are not viewed as independent firms, and they must take all direction from the state.

In such a command economy, developmental goals and strategies are system-oriented. In China, these goals and strategies were laid out in the documents of the Communist party or in the speeches of its leadership, even if sometimes in vague terms and reflecting unrealistic ambitions. In the early 1950s, China's goal was to restore the economy after the war years of 1937 to 1949. The basic strategy adopted was to develop various types of economic organizations, including private corporations. By the late 1950s, the national goal was "to catch up with the United States and surpass Britain" and, because China's industrial development was then and still is considerably lower than the United States' and Britain's, and because outside support of advanced technologies was not available, China's strategy was to mobilize a large-scale work force committed to labor-intensive mass production. Throughout the 1960s and 1970s, the "socialist construction of four modernizations"³ was declared several times by the leadership as a statement of the national goal, and tighter state control of business enterprises and activities was

the fundamental strategy adopted. The current regime under Deng Xiaoping's leadership is committed to a more measurable goal: to increase gross national output fourfold over the twenty years from 1980 to 2000, a growth rate that has been artificially and politically projected. The new leadership is committed to a strategy of developing a "planned commodity economy," in which state planning and governmental control are accompanied and supplemented by market coordination (Perkins 1986; Lin 1989).

The Allocation of National Resources and Incentives

These system-oriented goals and strategies require that economic resources and incentives be distributed according to government interests. Three government interests are critical: (1) ideological interests of the Communist party, (2) national interests of state planners, and (3) control interests of government administration.

Ideological Interests of the Communist Party. One feature that distinguishes state socialist economies from other nonmarket economies is that they are operated by Communist parties. The ideological interest of the Chinese Communist party in maintaining state ownership over the means of production has guided the restructuring of work organizations. After the Communist revolution in 1949, the state took over all industrial and financial firms that had been controlled by leading figures in the former Nationalist government or by foreign capitalists. At the same time, the nationalization of telecommunications, education, scientific research, entertainment, and sports took place to allow the party to control these "superstructures" of the state. During the socialist transformation in 1956, all vital firms in the private sector were turned over to the state. The rest of the economy was organized within a supplementary "collective" sector and a tiny private sector. For the last forty years, the state sector has been given priority over the collective sector in the supply of finance, material, and labor. Also, state sector workers have been provided with higher wages and benefits than collective sector workers. Individual laborers had been deprived of both resources and incentives for quite some time before the policy changes of the late 1970s.

National Interests of State Planners. Whereas the Communist party is ideology-driven, its state planners are oriented more toward a set of national interests, namely, the increase of state capital, economic growth, and industrialization. These national interests

require that resources and incentives be allocated to certain industries whose products are essential to the country's overall economic plan. In China, state budgets favor heavy industries over light industries because their products, such as energy, steel and iron, and machinery, are the material basis for industrialization. Export industries have been favored over import industries because the foreign currency generated from international trade allows state planners to buy technologies from the West. In short, not only are sufficient budgets guaranteed for favored industries, but also prices of products, government subsidies, retention of profits, and wage standards are biased in their favor (Walder 1986, chap. 2; Li 1991, pp. 77–128).

Control Interests of Government Administration. All government bureaucracies have an interest in controlling the economic resources and incentives under their jurisdictions. In China, state and collective organizations are operated by each of the five levels of government administration. Central ministries operate large industrial complexes. At the next three levels are the governments of provinces (or municipalities or autonomous regions), cities or prefects, and urban districts or rural counties, all of which operate vital firms at each level. The lowest level is composed of small businesses operated by urban subdistricts or rural townships. This administrative structure forms the hierarchy in which national resources and incentives are allocated from the central command to the various levels of local governments, and favors accrue to the higher levels of government jurisdictions and their subordinate work organizations. In wage determination, for example, state-fixed wage standards have been set at the highest rate for workers in central ministry-run organizations and are lowest for those in the lowest levels of local-run enterprises (Li 1990, p. 85).

At all levels of the hierarchy, work organizations are assigned bureaucratic ranks similar to those used to rank military organizations. This ranking method defines the power and authority of work organizations within and across administrative boundaries, and consequently the power and authority of the individuals who head them. Ranking also facilitates another control interest: under the same government jurisdiction, organizations with a higher bureaucratic rank can obtain more resources and incentives than organizations with a lower bureaucratic rank. In addition, work organizations with a higher rank have greater ability to cross administrative boundaries to obtain resources and incentives from government agencies and other organizations.

Labor, Management, and Incentives in Pre-Reform China

Ideological interests of the Communist party, national interests of state planners, and control interests of government administration determine how resources and incentives tend to be distributed to work organizations in the state sector, in certain industries, and at high levels of the government bureaucracy. Thus, organizations with these interests are often able to provide more incentives to their managers and workers. But why do they *want* to do so?

Labor as a National Resource

The Chinese Communist regime recognizes a citizen's right to work. But this regime also denies an individual's private labor rights. In official economics textbooks, labor has been defined as a commonwealth of the state, not as a private right of the individual. In practical terms, labor has been treated as a national resource, not as a commodity. Like the allocation of financial and material resources, the allocation of labor reflects the ideological interests of the party, the national interests of state planners, and the control interests of government jurisdictions. Therefore, organizations in favored sectors, industries, or bureaucratic levels obtain and hoard more and better labor resources.

Obtaining Labor Resources Through Job Assignments. Government job assignments have been the primary mechanism for the allocation of labor resources in China. Before economic reforms in the 1980s, state labor agencies had the ultimate authority to control labor supply and demand. On the supply side, students were required to enroll in government job assignment programs after graduation from high school or college. Individual job searches were prohibited in both state and collective sectors. Urban youths did not look for jobs but waited for an assignment from their local state labor agencies. On the demand side, state labor agencies controlled and distributed labor quotas to work organizations. Administratively, it was illegal to hire workers outside of quotas. Food rationing was also an effective economic means to maintain administrative control. With these mechanisms, the government was able to control and allocate labor resources according to its ideological, national, and control interests.

State labor agencies were not the only actors in the job assignment process. Work organizations also influenced government decisions on the allocation of new workers. Formally, work organizations were allowed to submit proposals to government labor

agencies for labor quotas, and request new workers with specific qualifications. Informally, managers of these organizations bargained with government officials for favorable assignments. Although the more formal type of influence favored organizations with government priorities, informal bargaining favored only those organizations with a higher bureaucratic rank: the managers of these organizations had the ability to contact and influence high-ranking officials.

Hoarding Labor Resources Through Organizational Control. As a national resource, Chinese labor was collectively "owned." The ownership of labor by the work unit (*danwei suoyouzhi*) was the basic form of this collective ownership of labor. These work units were given the ownership rights of the labor force they used in their production of goods and services. A staff member or worker could not leave for another job without the permission of his or her current employer. Another form was the ownership of labor by government jurisdictions (*bumen suoyouzhi*). At the local level, a municipal bureau or a company had the authority to permit job switching between work organizations, within the government jurisdiction or across it.

These organizational barriers to interfirm job turnover led to "hoarding" behavior: work organizations intentionally kept their experienced management staff, technicians, and skilled workers. Such hoarding behavior took away an individual's freedom to change jobs. But at the same time, it also limited the flexibility of work organizations to distribute human resources across organizations, simply because each and every work organization tended to hoard its personnel whether it used them effectively or not. Under these circumstances, work organizations have had to rely on job assignments for recruitment. In addition, new businesses relied on their government jurisdictions to "transfer" experienced technicians and skilled workers, or to exchange technicians and workers with other organizations for mutual benefit. In China, this practice was known as a "two-way transfer."

Incentives as a Strategy of Management

Administrative barriers to interfirm job switching were effective for hoarding labor resources. But this does not mean that workers being hoarded in their workplaces would definitely have positive work commitments. Incentives were needed both for preventing negative and promoting positive work behaviors. Negative behaviors included intentional slowdown of work schedules, the engage-

ment of personal work during working hours, the hiding of scarce tools for exclusive personal use, the wasting of raw materials, inattention to output quality, and the damaging of machinery or other facilities. These were the ways workers used to express dissatisfaction with wages, benefits, working conditions, political atmosphere, and managerial inabilities to provide incentives (Haraszti 1979; Walder 1987). The extensive use of punishment to resolve worker problems broadened and worsened them in the long run. Instead, "state-of-the-art" leadership attempted to use incentives as the primary strategy to prevent these negative behaviors (Li 1990).

Incentives were largely provided to stimulate positive work behaviors that affected workplace performance, which in turn was used by government authorities to evaluate workplace party secretaries and managers. For promotion purposes, party secretaries and managers made strong efforts to stimulate employees with various sets of incentives, whether political, material, or organizational.

Political Incentives. Chinese work organizations also established a comprehensive "model worker" program. To be a model worker was a social and political honor. Each year, model workers were selected by mass elections, or by appointment of the party secretaries and managers, or both. These model workers could be all-around models as well as models for specific aspects of work life. The same kind of program was conducted to select model cadres, model women workers, model youth league members, model party members, model work teams, model work units, and model companies or bureaus.

Another political incentive was Communist party membership. Model workers and politically active workers were granted party memberships as a result of better performances or for their loyalty to party branch secretaries and management (Walder 1986). Both party members and activists were promised promotions for their efforts and their success in inspiring, correcting, and directing workers (including monitoring any negative behavior of other workers and reporting it to party and managerial authorities in the workplace).

Material Incentives. Political incentives were provided only to a minority of the work force. Management in China used material incentives to reinforce positive behaviors from the majority of the work force. Although cash-income incentives were largely controlled by central planners, workplace management had "strategies" to break free from this bureaucratic control. One strategy was to

bargain for a lower output quota in order to produce a greater chance of retaining above-quota bonuses (Walder 1986, p. 111). Another strategy was to use piece rates rather than time rates, which allowed workers to earn extra wages after completion of assigned quotas (Li 1991, p. 231). Finally, workers were assigned extra hours of work at the end of each month, quarter, or year, which allowed them to receive more pay (Yuan 1990, p. 189).

Noncash incentives were largely available in the workplace. First, workers were rewarded with material prizes, which were less restricted than cash bonuses.⁴ Second, work organizations, particularly large enterprises and high-ranking agencies, controlled housing units and used them as rewards to their managers and workers. Third, comprehensive welfare programs were developed in the workplace to satisfy the daily needs of workers. These welfare programs included meal halls, medical clinics, bathing facilities, retail services, infant day care and kindergartens, sports and entertainment activities, and libraries. Fourth, work organizations used production resources for the welfare of employees and their families. A few examples illustrate this point: railway companies offered free train tickets to employees and their dependents; universities opened subsidiary high schools and elementary schools for the children of their employees; appliance manufacturers sold their products (which were in short supply in the market) to their employees at discount prices. Finally, many work organizations opened supplementary units to hire their employees' spouses and children.

Organizational Incentives. This final set of incentives refers to measures of rewards associated with one's tenure. Tenure in a work unit may not be important for wages or fringe benefits, because the distribution of wages and benefits followed government regulation. Seniority, however, could be a significant determinant of wages and benefits (Hu, Li, and Shi 1988; Walder 1990). But tenure in a work unit is a critical criterion for any patron-client relationships between party secretaries and political activists, between workplace managers and their administrative and technical subordinates, and between shop-floor supervisors and their workers. The longer one stays in a work unit, the greater the chance of developing instrumental ties with one's leaders, and the higher the likelihood of gaining the trust of one's leaders. These patron-client relationships were important not only for one's career promotions but also for acquiring the political and material incentives already mentioned (see also Walder 1986).

Segmentation in a Planned Commodity Economy

China's market-oriented reforms since 1978 have affected both rural and urban economies. These reforms, like those in Hungary and Poland, were initiated to overcome the difficulties resulting from a highly centralized economy (Brus 1989; Kornai 1989). The current central reform directive has been to transform administrative control into market coordination. In China, such a process has taken place only partially, resulting in a "planned commodity economy" in which both administrative and market forces alter economic activities (Perkins 1986). Szelenyi (1989) argues that this mixed economy will characterize state socialist societies for rather a long time, because the transition to market coordination, in which private ownership is dominant, will not be easy and cannot be accomplished in a short period. This is particularly true for urban China. After a decade of market reform, private sector workers were, according to the official statistics, only about 4 percent of the urban labor force in 1987, the year that witnessed the peak of market reforms. Thus, in this research, I pay special attention to the state and collective sectors, which absorb more than 95 percent of the labor and produced the same percentage of the industrial output values (State Statistical Bureau of China 1989, p. 19).

Income-Oriented Incentives and Sustained Segmentation

Extensive measures have been introduced since 1979 to distribute incentives in state and collective workplaces. For profit-making enterprises, the old *profit-turnover system*, in which enterprises turned over all profits to their government jurisdictions, has been replaced by a tax system, in which profits are divided between the government and enterprises on agreed contracts. Profits retained by industrial enterprises on average increased from 1.7 percent in 1978 to 44.6 percent in 1987, and about one-third of this amount was used in the form of bonuses (Liu and Xu 1991, p. 358). The remaining two-thirds was invested in the production, housing, and welfare facilities and benefits. Nonprofit institutions, upon completion of contracted missions with the government, are allowed to engage in income-oriented activities, and earnings made through these activities are distributed in the form of bonuses (Han, Ren, and Tian 1990, p. 193). Government agencies, however, are not provided with these incentives.

Workplace directors and workers respond to these reform initiatives by becoming increasingly profit-seeking and income-

oriented. According to a 1986 Tianjin survey, salaries accounted for 70 percent of total earnings (Walder 1990), and were distributed according to strict government regulations. But retained profits motivate workplace managers to reward workers with bonuses for two reasons. In social-political terms, there is a greater expectation by workers that a manager will be able to generate bonuses in the new economic environment (Walder 1989). Thus, rewards are intended to promote worker performance, which in turn can lead to increased profits. This has now become the primary criterion of career promotion for managers (Liu and Xu 1991, p. 374). In addition, managers benefit from raising bonus funds in economic terms because the more funds they raise, the more money will go into the managers' pockets (Liu and Xu 1991, p. 383). Enterprises, then, are able to generate bonuses as the direct result of retained profits.

But institutional economists' firm ability theory does not fully account for this relationship between firm profitability and bonuses in the current reform era in China. One reason is that profit retention at the firm level is still in part affected by vertical relations with the government bureaucracy. Retained profits result from a case-by-case bargaining process with the government (Walder 1989, pp. 253–59; Li 1990, pp. 176–83). The lower the profits contracted to turn over to the state, the higher the profits retained by enterprises. Moreover, enterprises capable of getting resources from the government at a low state-fixed price, and then selling their outputs in commodity markets at a higher state-guided price (or at an even higher, negotiated price), will enjoy increased profits and greater retention of those profits (Walder 1987). Finally, retained profits are usually associated with price subsidies, tax benefits, and special funding that enterprises may receive from the state (Li 1990, p. 253). Because a "father-son" relationship still characterizes the socialist state and its production units (Li 1990, p. 176), enterprises with government priorities in the past continue to be favored in these vertically structured relations that now affect profit determination.

New Patterns of Economic Inequalities in the Urban Workplace

Bureaucratic coordination is not as deterministic in China as it was before market reforms. These reforms have substantially altered the basis of workplace segmentation and social stratification. Nee (1989) argues that the market transition will shift power, incentives, and opportunities from the central redistributive structure into the marketplace. Equally important, Nee (1991) argues that "partial reforms" retain the effects of the redistributive forces, and conse-

quently require the coordination of the bureaucracy and markets to determine the distribution of resources and rewards in this early stage of transition. For example, in a study of rural households in South China, Nee discovered that the richest were peasant entrepreneurs who at the same time held village administrative positions.

The market transition theory should be useful in explaining changes occurring in the urban sector because it defines general rules of social stratification in state socialism.⁵ But urban reforms do differ from rural reforms: decision-making power is partially decentralized to urban work units, rather than individual households. Just as peasant households are actors in the rural marketplace, work units are the direct producers in the cities. Work units, rather than individual workers, contract with the government bureaucracy and participate in markets. Workers are organized within their workplaces to produce profits and bonus funds, and, in turn, they are rewarded with bonuses and other incentives through the workplace, rather than in the larger marketplace. These developments are producing a new pattern of labor-reward distributions in urban China: the workplace is a primary initiator of labor rewards as a result of the shift from central control of incentives to enterprise autonomy; workplace managers are the new redistributors, in response to the shift of decision-making power from government bureaucrats to workplace authority; and workers gain power to demand rewards if they have greater political and human resources. I elaborate on these points in the sections that follow.

Workplaces as the Primary Initiators of Labor Rewards. There has been a remarkable shift in the workplace from the central control of incentives to an enterprise autonomy. The production and distribution of bonuses is one of the most visible areas where individual workplaces have gained decision-making power. At one time, workplaces influenced government decisions on the distribution of wages and incentives in only limited ways. Now enterprises and institutions actively organize their workers to produce profits and above-contract earnings. These profits and earnings, as documented already, are largely translated into bonuses and distributed. Just as peasants increase their earnings by becoming increasingly active in the rural market (Nee 1989, 1991), urban workers rely on their work units for improving their income. Specifically, urban workers depend on both the government and work units to increase salaries, but they rely solely on their workplaces for bonuses. In the analysis of Tianjin workers, this suggests that one's work unit would be asso-

ciated more strongly with one's bonuses than with one's salary. As described earlier, the ability of work units to generate bonus funds varies considerably from one unit to the next. Thus, I anticipate that workplace segmentation will have greater effect on the distribution of bonuses than on that of salaries.

Workplace Managers as New Redistributors. Since 1979, workplace managers have gradually acquired more decision-making powers from government bureaucrats. One of these is the distribution of bonuses. Despite government regulation on bonuses in the workplace, party cadres and managers, who are now in control of sizable bonus funds, have the power to distribute these funds according to their own interests. In such a case, workplace management tends to gain redistributive power as government bureaucrats lose it. A further implication is that although overall social and economic inequalities may be reduced because reform has benefitted peasants and workers by removing the privileges of government redistributors (Szelenyi 1978), there in fact may be new inequalities generated between newly established redistributors and workers in the urban workplace.

Worker Power in the New Environment. Workers have gained power to demand rewards in light of the new environment in the workplace. When incentives were previously controlled by government authority, workers lacked effective autonomous organizations, such as unions in the United States (a market society) or Poland (a formerly socialist society), and could do little but protest by means of negative or uncooperative work behavior.⁶ Now they are interacting with new redistributors: workplace managers, who depend on workers to produce profits and bonuses. For workers, this interdependence is their source of power for demanding rewards.

In the pre-reform period, the most effective worker power relationship, if any, was with one's work-unit party leader. Walder's "party clientelism" (Walder 1986, p. 162-86) predicted a pattern in which rewards were provided to party members and activists. But now workplace managers are more interested in a worker's performance and how it affects profits and bonuses, than in a worker's relationship with party secretaries or with the managers themselves. It appears that the basis of worker power may have been altered: as labor rewards once favored party members and political activists in pre-reform periods, they now favor workers who have exceptional abilities.

Sources of Data and Related Issues

The focus of analysis in this study is on the effects of workplace segmentation on the stratification of urban workers in the 1980s. The key data analyzed in this study come from a 1988 representative sample of 1008 adult residents in Tianjin, China. A description of the sampling and data collection procedures, along with a copy of the questionnaire, appear in Appendix A. Supplementary data include official statistics and in-depth interviews, which I conducted in Tianjin between 1983 and 1985 and in the United States between 1988 and 1992. Information about the in-depth interviews can be found in Appendix B.

Changing Situations in China and the Timing of the Survey

China has been politically, economically, and socially dynamic since the founding of the People's Republic in 1949. The country has also been in constant party-led campaigns. These major campaigns included (1) the Suppress Counter-Revolutionaries Campaign in 1950; (2) the Elimination of Counter-Revolutionaries Campaign from 1950–52; (3) the Land Reform Campaign from 1950–52; (4) the Ideological Remolding of Intellectuals Campaign in 1951–52; (5) the Anti-“Three Evils” Campaign against corruption, waste, and bureaucracy within the Communist party, government, army, and mass organizations in 1951–52; (6) the Anti-“Five Evils” Campaign against bribery, tax evasion, theft of state property, cheating on government contracts, and stealing of economic information in 1952–53; (7) the Agricultural Communalization Campaign from 1955–58; (8) the Socialist Transformation of Capitalist Industrial and Commercial Enterprises from 1956–58; (9) the Anti-Rightists Campaign to purge open-minded intellectuals in 1957; (10) the Great Leap Forward for rapid industrialization in 1958–59; (11) the Anti-Rightists Campaign within the Communist party in 1959; (12) the Socialist Education Campaign in rural and urban organizations in 1964–65, otherwise known as the “Four Clean-Ups” Campaign; (13) the Great Proletarian Cultural Revolution between 1966 and 1976; (14) the campaign against Deng Xiaoping for his intention and actions taken to reverse the principles of the Cultural Revolution from 1975–77; (15) the nationwide discussions focusing on the principle that “practice is the only criterion for testing the truthfulness of knowledge” in 1978–79; (16) the Campaign of Anti-Spiritual Pollution by the Bourgeoisie in 1983; (17) the Rectification Campaign of the Chinese Communist Party from 1984–86; and (18) the Cam-

campaign for the Elimination of Bourgeois Liberalization in early 1987. After the prodemocracy movement of April–June 1989, there was a party-led campaign to ferret out activists.⁷ These campaigns altered political atmospheres and affected people's work and nonwork activities. Because of these campaigns, it is difficult to draw conclusions from a cross-sectional social survey, such as the one presented in this book, about *general* patterns of Chinese workplaces and their effects on workers. Such conclusions may be limited to one period of time and are subject to further tests based on data collected at other times.

The year 1988 marked a decade of China's market-oriented reforms. This was also the year that witnessed the peak reforms. Over the ten years, "market economies" as related to individual laborers, family businesses, private companies or corporations, foreign investments, and international joint ventures grew drastically in both urban and rural areas. Industries in a "collective" economic sector also grew fast, while the state sector shrank. As a result, the state's control of industrial products was reduced from more than 80 percent to 60 percent for the entire nation. In southern provinces such as Guangdong and Fujian, this percentage was reduced to less than 50 percent (State Statistical Bureau of China 1989, p. 19). Politically, 1988 was also a significant time. Despite a left-wing campaign to eliminate "bourgeois liberalization" in the first half of 1987, the Thirteenth Congress of the Chinese Communist Party in the same year declared that the main line of work for the party in the next decade was to further the policies of economic reforms. *Gaige-Kaifang-Gaohuo* (Reform, Openness, and Unrestrainedness) were the approved party slogans. Although conservative leaders occupied some key positions in the party's Central Committee and its politburo, as well as in the central administration, the new party secretary general Zhao Ziyang, who was supported by the senior, paramount leader Deng Xiaoping, led the majority of reform-minded party cadres at both the central and local levels. Under these circumstances, the year 1988 reached the highest degree of political openness since 1949. This openness nourished the prodemocracy demonstrations of 1989.

These economic and political situations made 1988 a desirable time for conducting a study on Chinese workplaces and workers. Very often, responses to survey questions are affected in one way or another by the changing world around the respondents (Lin 1976; Bailey 1986). This is particularly true in China, where people are generally careful about what they say on nonprivate occasions in order to survive under authoritarianism. During the Cultural Revo-

lution between 1966 and 1976, for example, because of radical political agendas and political intensity throughout the country, it was almost impossible to use survey techniques to collect valid and reliable data inside China about the Chinese people's life experiences, characteristics, and attitude towards the Communist regime. In a sense, the political and economic openness of the 1980s prior to June 1989 provided a high degree of security for the Chinese people to willingly give truthful information about their jobs, workplaces, and political affiliations, as well as their *guanxi* (interpersonal connections) used in the process of status attainment, their perceptions of occupational and family lives, and their evaluations of current party policies. All of these topics were included in the 1988 Tianjin survey. This high degree of security was one of the bases under which survey techniques were successfully used in collecting valid and reliable data.

Tianjin as the Research Site

Tianjin is China's third-largest city and is located on the east coast of the country, approximately eighty miles southeast of Beijing. In 1988 Tianjin had about 8.5 million registered residents. The city is known as the birthplace of modern manufacturing industries in North China, and had been an industrial urban center long before the Communist party came to power in 1949. Since then, Tianjin has been a leader in the country's chemical, textile, manufacturing, and consumer-goods industries, and its industrial output values have been ranked second, next to Shanghai, among Chinese cities. The 1982 Chinese Census showed that of the total civilian labor force in the city, 60 percent were manufacturing and transportation workers, 15 percent sales and service workers, 5 percent clerical workers, and 19 percent professionals and administrators (Population Census Office of Tianjin 1984, p. 244). These percentages were comparable to those of all Chinese cities for the same year: 60 percent, 14 percent, 5 percent, and 20 percent, respectively (State Statistical Bureau of China 1983, pp. 350-52).⁸

Tianjin is not representative of Chinese cities in many respects. Because of its size, its leading role in industrial development in the North, its strength in science, technology, and higher education, and its proximity to the national capital, Tianjin has been designated as one of three municipalities (with Beijing and Shanghai) under the jurisdiction of the central government. Some 250 other cities fall under the jurisdiction of either a province, an autonomous district, or a prefecture. For many reasons, economic reforms

in Tianjin, like those in Beijing and Shanghai, have been rather moderate compared with cities in many southern provinces. In 1988, for example, 70 percent of Tianjin's industrial output values were produced by the state sector, compared with 60 percent for the nation and less than 50 percent for southern cities in Guangdong and Fujian provinces (State Statistical Bureau of China 1989, p. 19). Thus, Tianjin represents a core locality in a planned economy during the reform period.

Organization of the Book

This chapter includes theoretical hypotheses that will lead the analyses in subsequent chapters. In Chapter 2, I describe and analyze the structures and functions of Chinese workplaces. In Chapters 3, 4, and 5, I focus on employment and job-mobility processes in order to analyze exactly how individuals are channelled into favored organizations. I employ a status attainment model for analysis, but specify how the Chinese pattern of status attainment varies from others, such as the American one. In Chapter 6, I investigate the importance of the workplace to a person's political life, with particular attention paid to Communist party membership and cadre status. I next look at wages (Chapter 7) and collective consumption (Chapter 8) to analyze salaries, bonuses, labor insurance and benefits, collective welfare facilities, and housing as a function of workplace segmentation. In the final chapter, I draw conclusions and discuss research problems for further study.