

# MARKETIZATION AND INCOME DISTRIBUTION IN URBAN CHINA, 1988 AND 1995

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## ABSTRACT

*Marketization is both a central and a controversial term in the ongoing debate about the socioeconomic consequences of market reforms in China and elsewhere. We present a view that China's course of marketization has been an interactive process of market growth and state transformation. We quantitatively measure intercity variation in labor and capital marketization and examine income returns to positional power and human capital with national survey data from the 1988 and 1995 Chinese Household Income Projects. Our analyses show that over the seven-year period: (1) income differential increases between workers in the monopoly and open sectors; (2) income returns to such positional power as Communist party membership and cadre status increases; (3) income returns to human capital as measured by education and professional competence increase; and (4) 1995 income returns to measures of positional power and human capital are significantly higher in cities where labor and capital markets are more developed.*

## INTRODUCTION

Marketization is both a central and a controversial term in the ongoing debate about the socioeconomic consequences of market reforms in China and

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elsewhere (Nee, 1989, 1991, 1996; Walder, 1994, 1996; Rona-Tas, 1994; Lin, 1995; Bian & Logan, 1996; Parish & Michelson, 1996; Szelényi & Kostello, 1996; Xie & Hannum, 1996; Gerber & Hout, 1998; Zhou 2000). While no one disputes that “market” has emerged, grown, and been a driving force for societal transformations in China, there is noted disagreement as to how to define and measure market forces and exactly what implications the process of marketization may and may not have (see reviews by Nee & Matthews, 1996; Nee & Cao, 1999). So far, marketization has been explicitly or implicitly equated to passage of time (Nee, 1989, 1991; Bian & Logan, 1996; Gerber & Hout, 1998; Zhou, 2000), approximated by economic growth (Xie & Hannum, 1996), or indicated by distinctive groupings of localities that are nominally evaluated into different modes of market exchange (Nee, 1996; Parish & Michelson, 1996). These inconsistent operationalizations of marketization are in part the reason for controversial empirical analyses and conflicting theoretical conclusions (see reviews in Szelényi & Kostello, 1996; Nee & Matthews, 1996; Cao & Nee, 2000).

Capitalizing on both aggregate statistics and two comparable national sampling household surveys of urban China – 1988 and 1995 Chinese Household Income Project (henceforth CHIP) – we measure *level of marketization* and examine its impact on income distribution among wage earners. We proceed with two analytical strategies. First, because of the tremendous growth of product, labor, and capital markets after 1992, we use multiple regression models to conduct a trend analysis comparing 1988 and 1995 CHIP surveys for two sets of determinants of income distribution: (1) individual-level variables that measure a wage earner’s gender, age, education, and party membership; and (2) structural variables that measure a wage earner’s position in the occupational and economic structures. Second, given China’s vast regional variation in pace of reforms and socioeconomic developments, we quantitatively measure level of marketization across 55 cities, taking into account intercity variation in labor markets, capital markets, and economic growth. The impact on income determination of these city-level measures is then estimated in hierarchical linear models using the 1995 CHIP data. Our analyses are guided by a view that China’s course of marketization has been an interactive process of market growth and state transformation.

### **THREE PERSPECTIVES ON MARKETIZATION**

The market transition debate offers a number of themes about the nature and consequences of China’s marketization, which can be grouped into three theoretically distinctive perspectives: (1) Marketization is the process through

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