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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.

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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light on the pivotal role of the state in the stratification process (e.g., Brady, 2009; DiPrete, 2007, 1997; Moller et al., 2003). Advocating substantive institutional analysis, it also contributes to the sociological literature on the role of organizations in social inequality (e.g., Baron and Bielby, 1980; Stainback et al., 2010; Tomaskovic-Devey, 2014).

We organize the rest of the paper as follows. We first develop a theoretical argument to highlight the dual institutional transformation since the mid-1990s in reshuffling the stratification order. We further develop hypotheses to examine the changing roles of organizations in multiple dimensions of social inequality in urban China. We then report our empirical study using two national survey data collected in 1994 and 2003. We conclude with discussions of the implications and contributions of our study.

1. Institutional transformation and changing stratification processes

1.1. State policies, institutional transformation, and social inequality: an institutional argument

Grusky (1994) provided a succinct summary on variations in the social stratification order across distinct socioeconomic systems over different stages of the human history, from hunting and gathering societies, horticultural and agrarian societies, to industrial societies. In the context of modern industrial societies, Polanyi (2001 [1944]) articulated an institutional embeddedness perspective, which offered a useful analytical tool to examine the relationship between market conditions and inequality patterns (cf. Krippner and Alvarez, 2007). For example, as documented by Polanyi (2001 [1944]), the perplexing inequality and poverty issues in the 17th-19th century England can be understood only by scrutinizing specific state policies and the distinct path of developing the world's first modern labor market.

Consistent with this institutional embeddedness perspective, recent studies of both advanced market societies and transitional economies demonstrate that state policies play a critical role in generating specific market conditions, which in turn affect social inequality. In advanced market economies, welfare state policies have played a key role in shaping market environments, generating structural changes, and mediating market turbulence, thereby exerting significant impacts on social stratification (Tranby, 2006). Numerous studies demonstrate that different institutional arrangements across nations exert a huge impact on multiple aspects of social inequality, such as occupational attainment, job mobility, household income, and poverty reduction (e.g., Brady, 2009; DiPrete et al., 1997, ; DiPrete et al. 2006; Moller et al., 2003). Given the central role of the state in this process, a major shift in state policies can reshape sociopolitical institutions and restructure the market environment, inducing changes in social stratification (DiPrete, 2007; DiPrete and Grusky, 1990).

While the state can shape and alter market conditions and mediate market turbulence to indirectly affect inequality patterns in advanced market economies, the state in transitional economies often functions as the “mid-wife” of emerging markets and thus plays a more direct and decisive role in creating different types of markets. In this process, political processes and state policies give rise to different institutional transformations and opportunity structures, thus exerting an even stronger impact on social inequality (Walder, 2003; Walder and Nguyen, 2008; Zhou, 2000). For example, in Russia, radical liberalization and privatization have induced drastic industrial and organizational changes and directly affected job mobility patterns (Gerber, 2002). In contrast, China's party-state has maintained social boundaries between urban versus rural regions, industrial sectors, and different types of establishments, thus shaping inequality patterns in the 1990s (Wang, 2008).

We draw on insights from the “institutional embeddedness” perspective (Polanyi, 2001 [1944]; cf. Grusky, 1994) and aforementioned institutional analyses of social inequality. We propose that the social stratification order is embedded in specific institutional environments, which are subject to the strong influence of state policies. In this light, we analyze the shifting stratification order and changing organizational roles in urban China following the institutional transformation in the mid-1990s.

Central to our argument is the recognition that the state has led *a dual process of dismantling old redistributive institutions and constructing emerging markets* since the mid-1990s. In this process, the basis of the stratification order has shifted from institutional segmentation to market fragmentation. By “institutional segmentation” we refer to the state-enforced segmentation of organizations based on organizational ownership and bureaucratic rank under the redistributive *danwei* system. “Market fragmentation” refers to heterogeneous market conditions in various domains after the mid-1990s, featuring both market mechanisms and socialist legacies.

The dual process of transformation has restructured the institutional foundation of social stratification. First of all, the traditional redistributive system and organizational segmentation have been overhauled; as a result, the institutional basis of the old stratification order was undermined. Under the redistributive system, organizations were segmented by economic sectors based on organizational ownership and by bureaucratic ranks. Organizations in the state sector and those with a higher bureaucratic rank had access to better resources and provided better benefits for their employees. Since the mid-1990s, the state has overhauled the redistributive system and restructured organizations through the property rights and fiscal reforms. These reforms have redefined the significance of institutionalized organizational characteristics (i.e., organizational ownership and bureaucratic rank) in stratification processes.

Concurrent with the overhaul of redistributive institutions, the state has cultivated various markets with different paces and strategies in accordance with the state's political agenda. Under the control of the party state, the market environment in China contrasts sharply from an integrated market system in Western capitalist economies as well as that in Eastern European countries characterized by spontaneous markets following the collapse of the socialist regime (Hamm et al., 2012; King and Szelényi, 2005). In China, what have emerged are “fragmented markets,” which are characterized by heterogeneous market

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conditions, inconsistent institutional logics, and distinct allocation mechanisms across socioeconomic arenas. While some arenas have made significant progress in developing market infrastructure and mechanisms, others have inherited strong socialist legacies and remain under the state's tight control. Such fragmented market conditions have generated a new stratification order. In light of the dual transformation process, below we contrast the old and new institutional structures to highlight the changing organizational roles and the shifting stratification order in urban China.

1.2. Social inequality based on institutional segmentation before the mid-1990s

As well established in the literature (Bian, 1994; Walder, 1992), in the pre-reform era, work organizations under the *danwei* system provided the institutional foundation to redistribute all kinds of socioeconomic rewards, including jobs, wage, housing, and social welfare benefits. Through the unified redistributive mechanism, institutional segmentation based on organizational ownership and bureaucratic rank generated distinct patterns of social inequality.

One salient institutional arrangement was the segmentation of economic sectors based on organizational ownership. Organizations in the state sector were the backbone of the redistributive *danwei* system. With preferential treatment and privileged access to resources, state-owned organizations offered better jobs and socioeconomic benefits to employees than their counterparts in the non-state sector. Moreover, organizations were segmented vertically in a hierarchical budget system. That is, the governments at each administrative level exercised control over and extracted revenues from enterprises within its jurisdiction through taxation, and then turned over the collected revenue to the next higher-level government. In this nested hierarchy, those organizations at a higher bureaucratic rank enjoyed favorable tax benefits, retained higher profits, and received more resources from the state. Thus, their employees enjoyed better socioeconomic rewards in all aspects.

These patterns were not significantly altered in the early stage of market reform. Before the mid-1990s, the state continued to control most resources and the organizational hierarchy remained intact. Although private firms had expanded gradually and made significant gains in emerging markets, by 1994, 86.2% of employees in urban China continued to work in the state and collective sectors (NBS, 2004), and the advantage of the state sector over the collective sector remained substantial. Thus, the stratification order in urban China was still largely shaped by the redistributive mechanism associated with organizational segmentation (Wang, 2008; Zhou, 2000, 2004).

1.3. Dismantling of institutional segmentation after the mid-1990s

The institutional segmentation in the *danwei* system underwent significant changes after the mid-1990s. After Deng Xiaoping's famous southern tour in 1992, the Chinese state shifted its official ideology away from the orthodox socialism and pushed forward radical market reforms (Frenkel and Kuruvilla, 2002). A series of interrelated reforms, especially the property rights reform of public enterprises and the fiscal reform of budget hierarchy, overhauled the redistributive system and organizational hierarchy. These reforms have dismantled the redistributive *danwei* system, redefined the significance of organizational ownership and bureaucratic rank, and reshuffled the stratification order.

First, the property rights reform overhauled the economic system and organizational ownership structure. After promulgating the Company Law in 1994, the state started to restructure the inefficient state economic sector and public enterprises in order to advance the market-oriented economy. SOEs as well as collective enterprises were restructured through various forms, including the formation of shareholding companies, full privatization, bankruptcy, and give-away (Oi, 2005). Consequently, SOEs and collective enterprises lost favorable treatment from the state, and they faced hardened budget constraints particularly after the banking reform in the late 1990s (Naughton, 2007). More broadly, the property rights reform has largely eliminated the legal public-private distinction, and the property rights of many organizations have become blurred. As the result, institutional segmentation based on economic sector and organizational ownership has been greatly weakened.

Second, the state implemented the fiscal reform of the budget system to redefine the relationship between the central and local governments and between governments and organizations. A landmark development was the adoption of the revenue-sharing system (*fenshui zhi*) in 1994. Under the new system, there are separate revenue sources for the central and local governments, and the central government would not step into local taxation affairs after receiving a fixed rate of revenue remitted by local governments. Because the new fiscal system treats enterprises equally by applying the same tax rate regardless of their bureaucratic ranks and organizational ownership, high-ranked organizations lose preferential treatment from the state (Zheng, 2004). Under the policy of "holding the big, while let go the small," many public enterprises were relegated to lower-level governments or were no longer affiliated with any government. These institutional changes broke down the vertical organizational segmentation under the redistributive hierarchy and altered the role of organizational bureaucratic rank in stratification processes.

1.4. Fragmented markets and diverse organizational roles across inequality domains

To appreciate the new role of organizations in the emerging stratification order, we call attention to the other part of the dual institutional transformation—the emergence of fragmented markets. Concurrent with dismantling the redistributive system and breaking down organizational segmentation, the state has adopted different strategies to develop markets in various domains in accordance with its political agenda. Such market development strategies created fragmented markets, heterogeneous institutional environments, and diverse allocation mechanisms.

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Specifically, the labor market has emerged after the state privatized public enterprises and implemented the radical labor reform by redefining employment relationship; the housing market was created as the state transformed public housing into private property. In contrast, the social welfare domain has been characterized by strong socialist legacies and undeveloped market mechanisms after a moderate welfare reform. Because work organizations were the focal actors of allocating all kinds of socioeconomic rewards under the redistributive system, they were at the center of state reforms and market development effort. Through the dual process of institutional transformation, reformed organizations interact with heterogeneous market conditions and play different roles in multiple dimensions of social inequality.

Recognizing such fragmented market environments, we need to go beyond income and examine a spectrum of key indicators of social inequality *simultaneously*, including job unemployment, income, housing, and social welfare benefits, to depict a complete picture. For this purpose, we examine specific state policies, market conditions, and organizational reforms in order to develop a set of hypotheses on the changing roles of organizations in multidimensional social stratification. In particular, we examine how the redefined organizational characteristics (i.e., organizational type and ownership and organizational bureaucratic rank) interact with heterogeneous market environments to impact different aspects of social inequality.

1.4.1. Job unemployment after the state's labor reform

Unemployment has a critical, adverse effect on an individual's socioeconomic well-being. Moreover, the socialist employment system is a defining feature of the redistributive economy. Under this system, the state allocated jobs, guaranteed job security, and pursued full employment as a strategic goal in urban China (Tang and Parish, 2000). By the late 1980s, government assignment still accounted for 80% of all job positions, and nearly 90% of state employees had no labor contracts (Bian, 1994:53, 58). Accordingly, explicit unemployment was rare in urban China before the mid-1990s. While unemployment is often caused by economic recession in an advanced market economy, unemployment in a transitional economy often results from structural changes of the employment system, which helps to pave the way for the emerging labor market. For these reasons, investigation of job unemployment has particular theoretical significance in assessing the institutional change and the shifting stratification order.

The radical labor reform in the mid-1990s has fundamentally altered the employment relationship. The Labor Law taking effect in 1995 required that workers sign labor contracts with their employers, which provided the legal foundation for market-oriented labor management. In a sweeping change propelled by the state, 96.4% of all workers in urban China had signed labor contracts with their employment units by the end of 1996 (Ding and Warner, 1999). Consequently, workers became vulnerable to organizational changes and managerial discretionary power (Lee, 1999).

In this context, restructuring of organizations in the state sector triggered massive workforce reduction. As discussed above, after the property rights reform of organizations, SOEs and collective enterprises bore the brunt in economic restructuring. Facing hardened budget constraint, these public enterprises had particularly strong incentive to downsize (Naughton, 2007). Meanwhile, after the state implemented the fiscal reform to dismantle the budget hierarchy and reduce its financial burden, organizations across bureaucratic levels were all under the pressure to reduce their workforce.

Triggered by the labor reform and economic restructuring, workforce reduction had mainly taken two forms: layoff (*xiagang*) or early retirement before reaching the normal retirement age (e.g., 60 for males). Early retirees were entitled to better benefits than laid-off employees who were given merely basic-livelihood allowance. These two types of unemployment with differential levels of severity had different impacts on individuals' socioeconomic well-being.

In the course of workforce reduction, the choice of specific approach was significantly shaped by institutionalized organizational characteristics. In particular, in the state sector, compared with SOEs and collective firms, those organizations holding an administrative power (e.g., governmental agencies) tended to adopt a more lenient approach to alleviate the negative impact on their employees. In a similar vein, organizations with a higher bureaucratic rank took advantage of the inherited sociopolitical power to protect their employees from harsh job loss. Based on these considerations, we expect that after the state-initiated labor and organizational reforms in the mid-1990s.

H1a: Employees in SOEs and collective enterprises were more likely to have job unemployment, in particular the laid-off status, than those in other types of work organizations.

H1b: Organizations with a higher bureaucratic rank were less likely to choose layoff in the course of workforce reduction.

1.4.2. Income disparity in an emerging labor market

In previous studies, income disparity has been the main analytical focus of social stratification in urban China. Under the redistributive economy, the state set labor price and controlled wage policies. Even in the early stage of market transition, organizations in the state economic sector and those with a higher bureaucratic rank continued to provide higher compensation than those in the collective sector or with a lower bureaucratic rank (Bian, 1994).

As discussed above, the radical labor reform and altered employment relationship based on the labor contract paved the way for the emergence of labor market. To adapt to the market-oriented labor management, the state further implemented the wage reform in the mid-1990s and abolished strictly controlled, standard wage policies under the *danwei* system. As a result, organizations had considerable authority to decide employee wages, which is now tied directly to an organization's financial performance (Wu, 2002; Xie and Wu, 2008). Moreover, because all enterprises now paid the same level of tax regardless of their ownership and bureaucratic rank, organizations in the state sector and those with a higher rank lost state's financial support and could no longer secure more resources. After these institutional and organizational changes in the mid-1990s, we predict that.

H2a: Organizational type and ownership had a declining impact on income disparity.

H2b: Organizational bureaucratic rank had a declining impact on income disparity.

1.4.3. Housing inequality in a transformed market

After the radical housing reform in the late 1990s, public housing has been privatized and transformed into the most valuable private asset, and housing has become a key indicator of an individual's economic well-being (Zhao and Ding, 2008). The transformed housing market thus offers an intriguing institutional context to examine the changing inequality patterns.

Under the redistributive economy, organizations in the state sector provided free public housing for their employees. Although there were moderate housing reforms since the 1980s, by 1995 two thirds of the urban population still lived in collectively owned flats distributed by work units (Davis, 2003:185). Housing inequality continued to be affected by organizational status based on ownership and bureaucratic rank.

After the state government radically abandoned the free public housing policy in 1998, housing underwent a process of commodification and privatization. Although wealthy families could purchase commercial housing from the burgeoning housing market, for most employees, housing was first privatized within or through work organizations via several channels: work organizations created the Housing Provident Fund, directly sold houses under their control to employees, or helped their employees buy commercial housing with subsidies (Huang and Clark 2002; Zhao and Bourassa, 2003).

The process of housing privatization through work organizations had important implications for housing inequality. Those organizations with higher sociopolitical power (e.g., government agencies) or better economic resources (e.g., private firms) diverted larger funds to help their employees acquire better housing (Wang, 2008). By comparison, as SOEs often struggled to secure employee wage and basic social benefits (e.g., health insurance) as their priorities, they devoted fewer resources to the Housing Provident Fund. Moreover, since SOEs had provided free housing for their employees under the redistributive system, they could simply sell the old housing to sitting tenants. Therefore, SOEs had fewer resources and incentives to subsidize their employees in acquiring better housing. Meanwhile, as organizations of a higher rank lost the state's support and favorable treatment after the fiscal reform, they no longer had economic advantages to subsidize their employees in the transformed housing market. Therefore, after the radical housing reform in the late 1990s, we expect to find that.

H3a: SOE employees fared worse in housing quality than those in other types of organizations.

H3b: Organizational bureaucratic rank had a declining impact on housing inequality.

1.4.4. Distribution of social welfare benefits in an undeveloped market

Social welfare benefits were a key component of economic well-being under the redistributive economy. Under the institutional segmentation, organizations in the state sector and those with a higher rank provided better social welfare benefits to their employees (Bian, 1994). After the mid-1990s, as poverty became a serious social problem and even the minimum subsistence level became a concern after radical economic reforms and massive unemployment, social welfare benefits were crucial to the quality of life in urban China.

In contrast to the emerging labor market and the transformed housing market, the social welfare domain has been characterized by a strong socialist legacy and undeveloped market mechanisms. Compared with the dramatic labor reform and the sweeping housing reform, the state reform of social welfare was slow and incremental through the 1990s. This was partly because social welfare benefits were perceived as the sacred right of employees under the socialist legacy (Frazier, 2004). The social welfare reform intended to “socialize” the welfare system so that individual employees, enterprises, and local governments would share financial responsibilities. Although wealthy individuals could purchase some welfare plans (e.g., health insurance) from the embryonic market, work organizations remained the basic unit for social welfare programs.

Different from the labor and housing reforms, the main purpose of the social welfare reform did not aim to enhance economic efficiency or promote privatization. Rather, such a welfare reform fundamentally served the state's political agenda—to construct the safety net (such as pension, health insurance, and unemployment insurance) to assuage social grievance and maintain social stability after a massive scale of privatization and workforce reduction. As the classical socialist contract promised basic living standards and comprehensive social benefits, it was important for the state to construct the safety net as part of the emerging market-based social contract to gain the social and political legitimacy (Tang and Parish, 2000).[1]

With such political legitimacy at stake, the state-led social welfare reform has mainly taken an administrative route. New policies were often implemented first in the state sector and then extended to other economic sectors (Solinger, 2002). Because of organizational inertia and the concern on legitimacy, those organizations bearing a stronger socialist legacy and close to the state, such as those in the public sector or with a higher bureaucratic rank, were likely to maintain better social welfare benefits for their employees. Based on these considerations, we hypothesize that after the moderate social welfare reform.

H4a: Organizations in the state economic sector continued to provide higher social welfare benefits than their counterparts in other economic sectors.

[1] In a similar vein, in many newly industrialized societies in East and Southeast Asia, the state often adopted the “soft authoritarianism” approach and devoted great resources to providing basic necessities to their citizens, which is crucial to secure the social and political stability, sustain the economic growth, and achieve the “performance legitimacy” (Stubbs, 2001).

H4b: Organizations with a higher bureaucratic rank continued to provide higher social benefits.

We summarize our theoretical discussions and hypotheses in Table 1 to highlight the changing organizational roles and the shifting stratification order along with the dual institutional transformation after the mid-1990s. Under the unified redistributive system, the prevalent organizational segmentation served as the institutional foundation to generate coherent patterns of social inequality. In contrast, after dismantling the redistributive system and constructing various markets with different paces and strategies in the mid-1990s, organizations have played new and diverse roles across fragmented markets, generating inconsistent and mosaic patterns in multiple dimensions of stratification processes (see Table 1 below).

Table 1
Institutional transformation and changing organizational roles in social stratification in urban China.

Institutional structures and organizational characteristics	Multiple aspects of social stratification			
	Job employment	Income	Housing	Social welfare benefits
Redistributive mechanism and institutional segmentation before mid-1990s (under the socialist economy and in the early stage of market reform)	State assignment of jobs	State's administrative control of employee wage	Dominance of public housing distributed by the state; moderate reforms since the 1980s	Social welfare benefits controlled and distributed by the state
Organizational segmentation based on organizational ownership and economic sectors	Job security, full employment, and better jobs in the state sector	Organizations in the state sector provided higher income than those in the collective sector	Organizations in the state sector provided free and better housing than those in the collective sector	Organizations in the state sector provided better social welfare benefits than those in the non-state sectors
Organizational segmentation based on bureaucratic rank in the state budget hierarchy	Better jobs associated with higher-ranked organizations	Higher income associated with higher-ranked organizations	Better housing associated with higher-ranked organizations	Higher social welfare benefits associated with higher-ranked organizations
State radical reforms, fragmented markets, and organizational changes after the mid-1990s	State's labor reform (the Labor Law effective in 1995) and economic restructuring	Emerging labor market after the organizational, labor, and wage reforms	Transformed market after the radical housing reform in the late 1990s	Undeveloped market after the moderate social welfare reform
Organizational ownership: massive privatization & blurred boundaries between public-private firms after the property rights reform (the Company Law in 1994)	A positive association between SOEs and collective firms and individual's unemployment, particularly the laid-off status (H1a)	A declining impact of organizational ownership on income disparity (H2a)	SOE employees fared particularly worse on housing quality (H3a)	Organizations in the state sector continued to provide higher social welfare benefits (H4a)
Organizational bureaucratic rank: Dismantled budget hierarchy after the fiscal reform (the adoption of the revenue-sharing system in 1994)	A negative association between organizational rank and employee laid-off status (H1b)	A declining impact of organizational rank on income disparity (H2b)	A declining impact of organizational rank on housing inequality (H3b)	Organizations with a higher rank continued to provide higher social welfare benefits (H4b)

2. Research design

2.1. Data

To test the hypotheses based on our theoretical arguments, we draw empirical evidence from two national survey data collected ten years apart (1994 and 2003) from urban China. Both datasets adopted a multi-stage stratified sampling scheme and collected systematic information on different aspects of social inequality. Comparative analyses of these two datasets collected before and after radical state reforms in the mid-1990s provide an excellent opportunity to examine the changing roles of organizations and the shifting stratification order in urban China.

The first dataset was the "State and Life Chances (1949–1994) Survey" conducted in 20 Chinese cities in 1994 (for detailed description of the survey and data, see Zhou, 2004). In addition to Beijing and Shanghai, the two largest Chinese cities, the survey drew the sample from the capital city, a middle-sized city, and a small city from each of six provinces (Hebei, Heilongjiang, Jiangsu, Guangdong, Sichuan and Gansu) in different geographic regions in China. The data had detailed information on the life histories of individuals across years. For our research purpose, this study focuses on the respondent's job and socioeconomic information upon data collection in 1994 (referred to as the 1994 data afterwards). The year of 1994 was on the eve of a series of radical state reforms as discussed above (see Table 1). The 1994 data thus capture the inequality patterns toward the end of the redistributive system. Because unemployment was still rare before the mid-1990s, the 1994 data do not contain information on unemployment. After data cleaning, a total of 2811 cases are used in our analyses.

The second dataset is the Chinese General Social Survey (CGSS) 2003 data (subsequently referred to as the 2003 data). Conducted in 2003, the survey drew the sample from 103 city districts and county towns from 23 provinces and three major municipal cities, i.e., Beijing, Shanghai, and Tianjin (for details, see http://www.chinagss.org). We focus on those respondents with an age between 18 and 60 (comparable to the 1994 data). We further remove cases who had never been employed or had retired after the normal retirement age (e.g., 60 for males) by 2003, but keep those unemployment cases due to layoff or early retirement, which have become prevalent since the mid-1990s. After data cleaning, 4050 cases are included in our analyses.

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2.2. Dependent variables on social inequality

Our dependent variables consist of four key indicators of social inequality—unemployment status, income, housing, and social welfare benefits—that have been embedded in fragmented market environments after the mid-1990s. Except for unemployment status, we contrast the patterns on income disparity, housing inequality, and social welfare benefits between the 1994 and 2003 data.

2.2.1. Unemployment status

Because unemployment became prevalent only after the mid-1990s, we focus on the 2003 data in this set of analysis. We create three dummy variables to indicate an individual's current (un)employment status upon the survey in 2003. We use "currently employed" to indicate those holding a job (yes = 1). We distinguish two types of unemployment status. If a respondent identified his or her current job status as being laid off, we code "laid-off status" as 1. If a respondent below the normal retirement age identified his or her current status as "retirement," we code "early retirement" as 1.

2.2.2. Personal income

For both 1994 and 2003 data, we use the logarithm of an individual's monthly total income (including wage, bonus, as well as other earnings). We adjust the monthly income in 1994 to *yuan* (RMB) in 2003 based on the Consumer Price Index.

2.2.3. Housing

To measure housing inequality, we focus on the size of a respondent's residential housing (squared meters, logged) as the key indicator of housing condition, which is available and directly comparable in 1994 and 2003 data.[2]

2.2.4. Social welfare benefits

Because new items were added to the social welfare system (e.g., unemployment insurance) after the mid-1990s, information on social welfare benefits is not directly comparable between the 1994 and 2003 data. For the 1994 data, we measure social welfare benefits by the total amount of subsidies per month (*yuan*, logged), which often covered the medical care and other social and family needs. As for the 2003 data, we construct a social benefit index (ranging from 0 to 6) by summing up the score ("available" = 1; "unavailable" = 0) on each of the following six items: free medical service, health insurance (basic and additional), pension (basic and additional), and unemployment insurance.

2.3. Independent variables on institutionalized organizational characteristics

The two key independent variables of particular theoretical interest are institutionalized organizational characteristics—specific types of organizations in various economic sectors (based on organization ownership) and organizational bureaucratic rank. *Organizational types* consist of government agencies, public organizations, and SOEs in the state sector, collective firms in the collective sector, private firms in the private sector, and a residual category for those cases having another or no organizational affiliation. We use SOEs as the reference category because they were the backbone of the redistributive economy and have borne the brunt of economic restructuring.[3]

Organizational bureaucratic rank is measured by the level of government with which an organization is affiliated. The set of dummy variables consists of the central and the provincial government, the city-level government (the reference category), the county-, district- or town-level government (referred to as the county-level government afterwards), and those cases whose organizations have no governmental affiliation.[4]

2.4. Control variables

We include demographic variables, including gender (female = 1) and age, for control purposes. We further incorporate education and party membership—the main indicator of an individual's human and political capital, respectively—that have attracted much attention in the extant literature. Educational attainment is measured at four levels: an elementary school, a junior-high school, a senior-high school, and a college level or above.

For both 1994 and 2003 data, we classify job and occupational status into following categories: high/middle-rank cadre (with the official rank as section (*ke*) or above), low-rank cadre, high/middle-rank business manager, low-rank business manager, professional, clerk, self-employed, skilled worker, and unskilled worker. For the 2003 data, we incorporate laid-off employee and early retiree to shed light on the impact of two types of job unemployment on social inequality.

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[2] For the 2003 data, we have further explored housing value as a new indicator of housing inequality in the emerging housing market, which shows similar patterns as the reported results for housing size.

[3] We have conducted additional analyses of the inequality patterns across general economic sectors (i.e., the state, collective, and private sectors), and the results show similar patterns as those reported in the paper.

[4] We have further explored additional analyses based on more refined coding in organizational bureaucratic rank, including the rank at the central, the provincial, the city-level, the county/district-level, and the town-level government, and that having no governmental affiliation. The results show similar patterns as those reported in the paper.

We further control for two economic factors in relevant analyses. When analyzing housing size (1994 and 2003 data) and the social welfare index (2003 data), we incorporate the respondent's annual income (logged) to control for the economic and purchase power. We also use a marketization index of each province (ranging from 0 to 10) to capture the variation in economic and market development across regions (Fan et al., 2006). Because the marketization index is unavailable before the year 2000, we use the 2003 marketization index for analyzing the CGSS 2003 data only. This variable also helps detect the implications of market mechanisms in multiple dimensions of social stratification.

Finally, we control for the geographic locations and city size in accordance with the sampling schemes in these two national surveys (see Table 2 below). For simplification, we do not report the results on this set of control variables in statistical models.

2.5. Models

We first use a multinomial logit model to analyze (un)employment status in 2003—laid off, early retirement, or currently employed. Because the 2003 data were collected from 103 city districts (as well as county towns), respondents' unemployment status could be subject to the influence of a local area's economic structure and condition. Thus, we use the "surveylogistic" command in SAS to adjust the variance structure within each cluster of city district.

Other dependent variables on social inequality—income, housing size, and the amount of subsidies (1994) and the social welfare index (2003)—are continuous variables. Because cases are clustered within the same city (the 1994 data) or city district (the 2003 data), we adopt a mixed regression model to control for unobserved local characteristics and model correlations among cases:

$$Y_{ij} = \alpha + \beta X_{ij} + \mu_j + \varepsilon_{ij}$$

where i and j refer to each individual case and a city (or a city district), respectively; Y is the dependent variable; X refers to the covariates of theoretical interest that have fixed effects; and μ_j and ε_{ij} are two components of error terms, representing the variation between cities (or city districts) and that between individuals from the same city (or city district), respectively.

3. Results

3.1. Descriptive analyses of structural and organizational changes (1994–2003)

Descriptive statistics of the 1994 and 2003 data are displayed in Table 2. Because the 2003 data drew the sample from both cities and towns and also included the information on unemployed cases, we display the 2003 data in three columns to facilitate the comparison with the 1994 data: the first column contains exclusively employees in cities, which makes it directly comparable with the 1994 data; the second column includes employees in both cities and county towns in urban China, which generally exhibits a similar pattern to city employees for most parts; and the last column displays the full data by adding unemployed groups (laid-off employees and early retirees), which were absent in the 1994 data.

A striking finding in the full 2003 data is the large proportion of unemployed cases, including laid-off employees (17.5%) and early retirees (9.7%). Additional analyses show that the vast majority of laid off and early retirement cases in the 2003 data had job exit after the mid-1990s. Consistent with findings in other studies (Giles et al., 2006; Solinger, 2002), an abrupt, vast increase in unemployment cases since the mid-1990s reflected structural changes after the state's radical labor and organizational reforms.

As shown in Table 2, there have been dramatic organizational changes from 1994 to 2003. After the state overhauled economic structures through the property rights reform, SOEs, collective enterprises as well as governmental agencies in the public sector have retrenched drastically, while private firms had a huge expansion. After the fiscal reform of the redistributive budget system, work organizations affiliated with the central/provincial government and with the city-level government shrank substantially, while organizations affiliated with the county-level government and particularly those having no government affiliation had a stronger presence. All these indicate that the organizational foundation of the redistributive system, which was based on a dominant state economic sector and a hierarchical budget system, has largely been dismantled in urban China after radical state reforms. Under such dramatic institutional changes, we now turn to examining organizational roles in affecting four dimensions of social inequality—unemployment status, income, housing, and social welfare benefits—that have been embedded in fragmented market environments after the mid-1990s.

3.2. Organizational characteristics and unemployment status in 2003

As shown in Table 2, one striking change after the mid-1990s is the massive scale of unemployment in urban China. Thus, we first investigate unemployment status in the 2003 data, which reflected structural changes and also affected individuals' economic well-being, such as income. The results of the multinomial logit model are reported in Table 3, which shows the log-odds of covariates of "laid off" and "early retirement" versus "currently employed," respectively. This set of analysis uses occupational and organizational characteristics of a respondent's last job: for those currently employed, we use their information upon data collection; for those currently unemployed, we use their information at job exit.

Table 2
Descriptive analyses[a] of the 1994 and 2003 data: Structural and organizational changes.

Variables	1994 data	2003 data		
	Employees in cities	Employees in cities	Employees in cities and towns	Full data including unemployed cases
N	2811	1166	2949	4050
Dependent variables				
Employment status				
Currently employed	100%	100%	100%	72.8%
Laid off	–	–	–	17.5%
Early retirement	–	–	–	9.7%
Income disparity				
Personal income (monthly, logged)	6.17(0.67)	6.84(1.08)	6.55(1.28)	5.83(2.23)
Housing inequality				
Housing size (logged)	3.60(0.56)	3.98(0.52)	4.20(0.61)	4.16(0.60)
Inequality on social welfare benefits				
Total amount of subsidies (logged)	2.27(3.34)	–	–	–
Social welfare benefit index (0–6)	–	2.24(1.73)	2.02(1.81)	1.92(1.75)
Independent variables				
Organizational type/ownership				
Government agency	10.7%	5.1%	6.7%	4.9%
Public organization	11.6%	15.6%	16.7%	12.1%
State-owned enterprise (SOE)[a]	51.0%	38.3%	33.3%	24.3%
Collective firm	13.9%	5.5%	6.2%	4.5%
Private firm	7.7%	28.8%	31.8%	23.3%
Other/no organizational affiliation	5.1%	6.6%	5.2%	30.8%
Organizational bureaucratic rank				
Central/provincial government	33.4%	26.2%	18.2%	13.3%
City-level government[a]	39.3%	26.2%	24.9%	18.1%
County-level government	12.9%	22.7%	29.2%	21.2%
No government affiliation	14.3%	24.9%	27.8%	47.4%
Control variables				
Female	40.4%	43.5%	43.1%	47.3%
Age	39.4(9.3)	38.2(10.1)	38.4(9.6)	40.2(10.0)
Education				
Elementary[a]	13.5%	4.8%	8.3%	10.4%
Junior high	32.2%	23.8%	28.1%	32.9%
Senior high	37.7%	38.6%	36.0%	34.6%
College	16.6%	32.8%	27.6%	22.2%
Party membership	23.3%	19.0%	20.9%	18.6%
Job & occupational status				
High/middle-rank cadre	9.5%	6.7%	5.0%	3.6%
Low-rank cadre	9.0%	3.3%	4.2%	3.0%
High/middle-rank manager	5.4%	4.3%	4.0%	2.9%
Low-rank manager	6.5%	3.5%	3.3%	2.4%
Professional	5.4%	12.0%	12.9%	9.4%
Clerk	15.9%	16.6%	14.0%	10.2%
Self-employed	4.2%	10.0%	15.9%	11.6%
Skilled worker	15.8%	16.8%	14.8%	10.8%
Unskilled worker[a]	28.2%	26.8%	26.0%	18.9%
Laid-off employee	–	–	–	17.5%
Early retiree	–	–	–	9.7%
Economic factors				
Annual income (logged)	8.66(0.67)	9.20(1.53)	8.92(1.67)	8.13(2.80)
Level of marketization in a region	–	6.76(1.79)	6.26(1.72)	6.26(1.69)
Geographic location and city size				
City location (1994 data)				
Beijing	12.2%	–	–	–
Shanghai	10.9%	–	–	–
Hebei[a]	12.1%	–	–	–
Heilongjiang	11.6%	–	–	–
Jiangsu	13.2%	–	–	–
Guangdong	17.0%	–	–	–
Sichuan	11.1%	–	–	–
Gansu	11.9%	–	–	–
City size (1994 data)				
Large city[a]	51.1%	–	–	–
Middle-sized city	29.3%	–	–	–
Small city	19.5%	–	–	–
City/Town location (2003 data)				
Beijing, Tianjin, Shanghai	–	47.5%	18.8%	18.6%
City in the East[a]	–	15.8%	6.2%	6.3%
City in the Central	–	20.8%	8.2%	9.0%

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Table 2 (*continued*)

Variables	1994 data	2003 data		
	Employees in cities	Employees in cities	Employees in cities and towns	Full data including unemployed cases
City in the West	–	16.0%	6.3%	6.8%
Town in the East	–	–	19.4%	18.2%
Town in the Central	–	–	29.2%	29.1%
Town in the West	–	–	11.9%	12.1%

Note: Standard deviations are put in the parenthesis; the group marked as "a" is the reference category for that set of variable.

Organizational type exerted an important impact on individuals' unemployment status in 2003. Compared with employees in SOEs, those in private firms were negatively associated with either form of job loss. This is not surprising given a dramatic expansion of the private economic sector (see Table 2). In the state sector, while employees of government agencies largely had the equal chance of early retirement, employees of government agencies as well as of public organizations were less likely to be laid off. Specifically, the odds of being laid off for employees of government agencies was only 16.9% ([exp(-1.778) = 0.169]) the odds for those of SOEs. In contrast, employees of collective firms—with an even lower sociopolitical power than SOEs—were more likely to be laid off. Overall, these findings render strong support to H1a—employees of SOEs and collective enterprises were more likely to have unemployment, in particular the laid-off status, through the economic restructuring process.

As for organizational rank, employees of organizations affiliated with the central/provincial government had the equal chance of early retirement as those of organizations affiliated with the city-level government. But they were significantly less likely to have the laid-off status. This suggests that organizations with a higher rank could exercise the inherited sociopolitical power to protect their employees from harsh job loss. In contrast, although organizations affiliated with the county-level government show a positive sign on individuals' laid-off status, it is insignificant. Thus, these findings render partial support to H1b on that employees of organizations with a higher bureaucratic rank were less likely to be laid off in the course of workforce reduction.

Table 3
Multinomial logit model estimates of unemployment status (CGSS 2003 data).

Covariates	Laid off vs. employed	Early retirement vs. employed
Type of last organization (ref = SOE)		
Government agency	−1.778**	−0.448
Public organization	−0.944***	−0.839**
Collective firm	0.549**	−0.393
Private firm	−0.952***	−2.071**
Other/no organizational affiliation	−1.557***	−2.516**
Bureaucratic rank of last organization (ref = city gov.)		
Central/provincial government	−0.563**	0.197
County-level government	0.161	−0.235
No government affiliation	0.180	−0.421
Control variables		
Female	0.628***	1.663***
Age	0.113	0.027
$Age^2/100$	−0.108	0.249
Education (ref = elementary)		
Junior high	0.171	0.373
Senior high	−0.305	0.041
College	−0.993**	−0.486
Party membership	−0.748**	−0.237
Last occupation (ref = unskilled worker)		
High/middle-rank cadre	−0.350	−0.832
Low-rank cadre	−1.256*	0.009
High/middle-rank manager	−0.721	−0.279
Low-rank manager	−1.010*	−0.196
Professional	−0.775**	−0.089
Clerk	−0.799***	−0.495
Self-employed	−1.534***	−1.376
Skilled worker	−0.406*	−0.277
Economic factor		
Level of marketization in a region	−0.214	−0.497**
Intercept	−1.690	−5.726
N	4014	
df	60	
Wald χ^2	640.6	
−2 Log-likelihood	4165.8	

*P < 0.05 **P < 0.01 ***P < 0.001 (two-tailed tests).

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Table 4
Mixed model parameter estimates of personal monthly income (logged) in 1994 and 2003.

Covariates	Model 1 (1994)	Model 2 (2003) (currently employed)	Model 3 (2003) (full data)
Organization type/ownership (ref = SOE)			
Government agency	0.132***	0.129	0.138
Public organization	0.112***	0.207**	0.206*
Collective firm	−0.140***	−0.137	−0.074
Private firm	0.390***	−0.098	−0.021
Other/no organizational affiliation	−0.146**	−0.290*	−0.378*
Organizational rank (ref = city gov.)			
Central/provincial government	0.093***	0.109	0.094
County-level government	−0.104**	−0.052	−0.041
No government affiliation	0.086*	−0.121	−0.116
Control variables			
Female	−0.156***	−0.223***	−0.435***
Age	0.019*	−0.008	−0.007
$Age^2/100$	−0.016	0.007	0.017
Education (ref = elementary)			
Junior high	0.123***	0.166	0.077
Senior high	0.199***	0.276**	0.231*
College	0.281***	0.522***	0.618***
Party membership	0.067*	0.037	0.025
Job & occupational status (ref = unskilled worker)			
High/middle-rank cadre	0.305***	0.575***	0.374*
Low-rank cadre	0.221***	0.507***	0.401*
High/middle-rank manager	0.299***	0.772***	0.658***
Low-rank manager	0.232***	0.043	−0.026
Professional	0.209***	0.413***	0.347**
Clerk	0.129***	0.275***	0.262*
Self-employed	0.118	0.295***	0.245*
Skilled workers	0.101**	0.331***	0.275**
Laid-off employee	–	–	−2.865***
Early retiree	–	–	0.156
Economic factor			
Level of marketization in a region	–	–	0.118*
Intercept	5.140***	6.462***	5.655***
N	2778	2792	3843
μ_j	0.039	0.069	0.053
ε_{ij}	0.251	1.301	2.546
−2 Log-likelihood	4223.9	8829.4	14633.4

*P < 0.05 **P < 0.01 ***P < 0.001 (two-tailed tests).

Among control variables, one important finding is the significant, negative association between a region's marketization index and both laid-off status (marginally significant at $p < 0.1$) and early retirement. This further indicates that job unemployment was not driven by market dynamics; rather, it resulted from state policies of restructuring the redistributive economy, especially in those regions with a lower level of market development and presumably a stronger presence of the state economic sector.

3.3. Changing organizational role in income disparity (1994–2003)

Mixed model estimates of personal monthly income are reported in Table 4. For the 2003 data, we first present results for those currently employed (Model 2) to make explanatory variables directly comparable with the 1994 data (Model 1). We then incorporate those two unemployment groups (as well as a region's marketization level) in the full model (Model 3) to further examine the impact of job unemployment on income disparity. We adopt the similar strategy for analyzing the inequality on housing (see Table 5) and on social welfare benefits (see Table 6) below. As shown in Table 4, the results in Models 2 and 3 are robust.[5]

As shown in the first two columns in Table 4, organizations played a very different role in affecting income disparity from 1994 to 2003. In 1994, organizational type exerted a systematic effect on personal income. The redistributive mechanism was clearly important in the public sector: government agencies and public organizations provided higher incomes, while collective firms offered lower incomes, than SOEs. Meanwhile, private firms had considerable gains in the emerging market and were associated with a higher employee income than SOEs. In contrast, by 2003, with the exception of public organizations,

[5] We also run the model by focusing on employees in cities (i.e., excluding those employees in county towns). The results are similar and thus are not reported here as well as in Tables 5 and 6 below.

Table 5
Mixed model parameter estimates of housing size (logged) in 1994 and 2003.

Covariates	Model 1 (1994)	Model 2 (2003) (currently employed)	Model 3 (2003) (full data)
Organization type/ownership (ref = SOE)			
Government agency	0.088*	0.155***	0.159***
Public organization	−0.016	0.066*	0.072*
Collective firm	−0.001	0.134**	0.121**
Private firm	0.074	0.090*	0.090*
Other/no organizational affiliation	0.091	0.145**	0.086*
Organizational rank (ref = city gov.)			
Central/provincial government	0.021	−0.004	0.011
County-level government	0.045	0.035	0.017
No government affiliation	−0.021	0.007	0.011
Control variables			
Female	0.061**	−0.025	−0.019
Age	0.009	0.022***	0.018***
$Age^2/100$	0.020	−0.017***	−0.013***
Education (ref = elementary)			
Junior high	0.005	−0.020	0.006
Senior high	0.021	−0.020	0.030
College	0.060	−0.041	0.029
Party membership	0.048	0.056*	0.078***
Job & occupational status (ref = unskilled worker)			
High/middle-rank cadre	0.123**	0.100	0.116*
Low-rank cadre	0.063	0.072	0.086
High/middle-rank manager	0.178***	0.090	0.115*
Low-rank manager	−0.039	0.165**	0.184**
Professional	0.056	0.071	0.084*
Clerk	0.052	0.113***	0.129***
Self-employed	−0.014	0.122***	0.114***
Skilled workers	0.012	0.041	0.058
Laid-off employee	–	–	0.067
Early retiree	–	–	−0.003
Economic factors			
Annual income (logged)	0.096***	0.142***	0.074***
Level of marketization in a region	–	–	0.050
Intercept	2.629***	1.920***	2.201***
N	2617	2824	3888
μ_j	0.019	0.057	0.061
ε_{ij}	0.234	0.246	0.248
−2 Log-likelihood	3802.2	4379.1	5995.6

*P < 0.05 **P < 0.01 ***P < 0.001 (two-tailed tests).

the impact of organizational type on personal income had largely disappeared. In particular, compared with SOEs, previous advantage of private firms and disadvantage of collective firms became indiscernible. These findings render strong support to H2a on that organizational type and ownership have largely lost their significance in affecting income after the organizational and wage reforms.

Results also show marked changes in the effect of organizational rank. In 1994, consistent with the budget hierarchy of the redistributive system, organizations affiliated with the central/provincial government and with the county-level government provided a higher and lower income, respectively, than those affiliated with the city-level government. After the fiscal reform, the impact of organizational rank on income became indiscernible in 2003, which renders support to H2b.

Results in Model 3 further show that unemployment had a huge impact on personal income. Specifically, early retirees had roughly similar earnings as unskilled workers, who stayed at the bottom of occupational categories among those currently employed. In contrast, the monthly income of laid-off employees was only 5.7% [exp (−2.865) = 0.057] of that for unskilled workers. While unemployment generally had an adverse impact on personal income, laid-off employees fared particularly worse. These findings further demonstrate the different implications and consequences of the two types of unemployment, which were significantly affected by organizational characteristics (see Table 3).

3.4. Different organizational role in housing inequality (1994–2003)

We further compare housing inequality patterns in 1994 and 2003 and report the results in Table 5. As shown in Model 1, interestingly, in 1994, organizational type and ownership displayed sporadic effects on housing inequality. One exception is that employees of government agencies with a higher sociopolitical power enjoyed larger housing than those in SOEs. Organizational bureaucratic rank exerted no significant impact on housing inequality. The lack of systematic effect of organizational type and bureaucratic rank on housing inequality may be attributed to moderate housing reforms since the 1980s, which had significantly weakened the redistributive processes in housing allocation by the mid-1990s (Zhang, 2001).

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Table 6
Mixed model parameter estimates of social welfare benefits in 1994 and 2003.

Covariates	Model 1 (1994)	Model 2 (2003) (currently employed)	Model 3 (2003) (full data)
	Subsidies (logged)	Social benefit index (0–6)	Social benefit index (0–6)
Organization type/ownership (ref = SOE)			
Government agency	0.125	−0.738***	−0.726***
Public organization	0.029	−0.353***	−0.335***
Collective firm	−0.823***	−0.884***	−0.865***
Private firm	−2.675***	−1.611***	−1.591***
Other/no organizational affiliation	−0.855**	−1.191***	−1.201***
Organizational rank (ref = city gov.)			
Central/provincial government	0.510**	0.192*	0.176*
County-level government	−0.129	−0.289***	−0.280***
No government affiliation	−0.064	−0.208*	−0.191
Control variables			
Female	0.042	−0.028	−0.097*
Age	−0.051	0.064**	0.076***
$Age^2/100$	0.068	−0.070**	−0.083***
Education (ref = elementary)			
Junior high	0.263	0.177	0.197*
Senior high	0.364	0.495***	0.463***
College	0.387	0.810***	0.768***
Party membership	0.018	0.108	0.123
Job & occupational status (ref = unskilled worker)			
High/middle-rank cadre	0.438	0.279	0.290*
Low-rank cadre	0.710**	0.350*	0.369*
High/middle-rank manager	0.400	0.430**	0.430**
Low-rank manager	0.269	−0.048	−0.041
Professional	0.676*	0.269*	0.296**
Clerk	0.340	0.187*	0.214*
Self-employed	−0.881*	−0.383***	−0.391***
Skilled workers	0.050	0.351***	0.344***
Laid-off employee	–	–	0.340*
Early retiree	–	–	1.322***
Economic factors			
Annual income (logged)	–	0.065***	0.064***
Level of marketization in a region	–	–	0.053
Intercept	3.629**	0.382	−0.279
N	2811	2822	3879
μ_j	0.738	0.110	0.115
ε_{ij}	8.986	1.906	1.850
−2 Log-likelihood	14207.1	9999.6	13603.7

*P < 0.05 **P < 0.01 ***P < 0.001 (two-tailed tests).

For the 2003 data, we first report the results for those currently employed (Model 2) to ensure direct comparability with the 1994 data and then report the results for the full data (Model 3). Again, Model 2 and Model 3 show robust results. In stark contrast to the housing inequality pattern in 1994 (Model 1), in 2003, organizational type had a considerable impact on housing inequality. In the transformed housing market, employees of government agencies and public organizations in the state sector and of private firms all enjoyed larger housing size than SOE employees. Strikingly, even employees of collective firms had better housing conditions than SOE employees. Clearly, SOE employees fared particularly worse on housing quality in the transformed housing market, which renders support to H3a. In 2003, organizational rank continued to exert an indiscernible effect on housing inequality as in 1994, which cannot render essential support to the prediction on the changing role of organizational rank (H3b).

3.5. *Persistent organizational importance in distributing social welfare benefits (1994–2003)*

We finally examine the organizational role in distributing social welfare benefits and report the results in Table 6. Model 1 analyzes the amount of subsidies for the 1994 data. Model 2 and Model 3 examine the social benefit index for those currently employed and the full set of the 2003 data, respectively. The results are robust across these two models.

In 1994, organizations played an important role in distributing social welfare benefits, as measured by the total amount of subsidies. Social welfare benefits were largely contingent on economic sectors based on organizational ownership. Compared with employees in SOEs, those in collective firms, private firms, and with other or no organizational affiliations had significantly lower subsidies. In contrast, in the state sector, government agencies and public organizations provided roughly the same amount of subsidies for their employees as SOEs. Organizational rank also had a discernible impact on employee subsidies. In particular, organizations affiliated with the central/provincial government provided significantly higher subsidies for their employees than those affiliated with the city-level government.

As predicted, for the 2003 data (Model 2 and Model 3), organizational characteristics continued to play a prominent role in determining social welfare benefits, as measured by a composite index (0–6). Collective firms, private firms, and other or no organizational affiliations were associated with much lower social welfare benefits than SOEs. Interestingly, within the state sector, government agencies and public organizations also provided lower social welfare benefits than SOEs. This is probably because the state strived to establish the safety net for SOE employees as their organizations bore the brunt of economic restructuring and labor force reduction.

Compared with the patterns in 1994, organizational rank played an even more systematic role in affecting social welfare benefits in 2003. Compared with middle-ranked organizations affiliated with the city-level government, those affiliated with the central/provincial government and with the county-level government provided significantly higher and lower social benefits, respectively. Among those currently employed, organizations with no governmental affiliation also provided significantly lower social benefits (Model 2). Overall, these findings show that organizations in the state sector and with a higher bureaucratic rank continued to provide higher social welfare benefits in a domain characterized by strong socialist legacies and undeveloped market mechanisms. These findings render full support to H4a and H4b.

4. Discussions and conclusion

The market transition in China and other former socialist countries has stimulated a heated debate among sociologists (e.g., see Bian, 2002; Cao and Nee, 2000; Heyns, 2005; Nee, 1989; Zhou, 2004). But this line of research has not made much progress in empirical inquiries nor theoretical development in recent years. Our study aims to move beyond the research focus of the market transition debate and to advance the literature both theoretically and empirically. Theoretically, we develop a new theoretical argument to capture the reshuffled stratification order along with profound institutional transformation during a critical period in urban China, which has largely shaped the inequality patterns thereafter. Empirically, while most extant studies use data collected before the mid-1990s, this study furnishes new empirical evidence on the dramatic changes in multidimensional inequality patterns based on two national survey datasets collected in 1994 and 2003, respectively. Although our study is situated in urban China during a critical period, our substantive institutional analyses have implications for interpreting more recent changes in China and the inequality patterns in other transitional economies. Our institutional approach also enriches the research themes in the broad literature on social stratification.

Instead of focusing on the individual characteristics (returns to human vs. political capital) in the market transition debate, we draw insights from the "institutional embeddedness" perspective (Polanyi, 2001 [1944]; see also Grusky, 1994) and institutional analyses of social stratification (e.g., Brady, 2009; DiPrete, 2007; Moller et al., 2003; Walder, 2003; Wang, 2008) to investigate 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, which are structured and can be overhauled by the state. We focus on the dual institutional transformation of dismantling the socialist redistributive system and constructing various markets following a series of radical reforms in the mid-1990s. Consequently, the foundation of the stratification order in urban China has shifted from institutional segmentation to market fragmentation. In the institutional transformation, work organizations have been the key focus in state reforms and experienced dramatic changes. Therefore, the changing role of organizations reflects the reshuffled stratification order in urban China.

Via the lens of changing organizations, we provide systematic evidence on the shifting stratification order before and after the mid-1990s using multiple indicators of social inequality in two national survey data. While the old stratification order was sustained by the unified redistributive mechanism and prevalent organizational segmentation, the emerging stratification order is characterized by market fragmentation (see a summary in Table 1). As late as 1994, social inequality patterns still largely reflected the organizational segmentation under the redistributive *danwei* system. Organizational ownership and bureaucratic rank maintained a central role in allocating socioeconomic rewards, such as income and social welfare benefits. But profound changes took place after a series of radical state reforms in the mid-1990s: The property rights reform of organization redefined organizational ownership and blurred the boundaries of public-private organizations; the fiscal reform overhauled the budget system and redefined the significance of organizational bureaucratic rank. Overall, these reforms have broken down the organizational segmentation sustaining the stratification order under the redistributive system.

In the fragmented market environments emerged after the mid-1990s, organizations have played diverse roles in multidimensional stratification processes, as shown by our analyses of the 2003 data. Specifically, through state-initiated labor reform and economic restructuring, both organizational type and bureaucratic rank exerted an important impact on individuals' unemployment status. Similarly, as the social welfare domain was characterized by strong socialist legacies and undeveloped market mechanisms, organizational type and bureaucratic rank remained crucial in distributing social benefits. In contrast, in the transformed housing market, only organizational type, but not organizational rank, had a significant effect on housing inequality. In the emerging labor market after the organizational, labor, and wage reforms, neither organizational type nor rank had a clear impact on income disparity. Piecing these aspects together, we can see that reformed organizations interacted with heterogeneous market conditions to exert diverse impacts on multiple aspects of social inequality (see Table 1). While extant studies tended to focus on a single aspect (particularly income) to gauge sources and patterns of social inequality, our study shows that it is critical to examine a spectrum of indicators to understand the intricate landscape of social inequality during the complex market transition.

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To sum up, our study focuses attention on the changing roles of organizations in social stratification amid profound institutional transformation in urban China. The shift of the stratification order from institutional segmentation to market fragmentation has generated mosaic patterns of social inequality. Since 2003, there have been further institutional changes and market development. But the Chinese party-state continues to hold political power and remains a key force to restructure markets and organizations (see a special forum at *Management and Organization Review*, 2011; Vol. 7, No. 1). For example, in recent years, the state has devoted more resources to civil servants in governmental agencies and to large SOEs in state-monopolized industries, which has led to renewed significance of “state-owned” organizations in social stratification (e.g., Liu et al., 2008). As the institutional and market environments in transitional economies continue to evolve, further institutional analyses of state policies, market development, and organizational changes are needed to identify the institutional transformation and to track the shifting inequality patterns.

Although our study is situated in China's intriguing context, our theoretical framework and findings have broad implications for the research of social inequality. Our institutional analyses echo and enrich the studies on the pivotal role of the state in social stratification processes in advanced market economies (e.g., Brady, 2009; DiPrete, 2007; Moller et al., 2003) and in transitional economies (Gerber, 2002; Walder, 2003; Wang, 2008). In a sense, China's market transition offers a rare “natural experiment” to examine how the state can drastically overhaul institutional structures, develop new markets, and reshuffle the stratification order within a short period of time. From a comparative perspective, the state-initiated reforms in urban China are far more extensive and intensive than state regulations and interventions in advanced market economies. Moreover, different from the “big-bang” shock therapy in East European countries, the Chinese party-state has remained the driving force and developed fragmented markets with different paces and strategies.

Consequently, the emerging inequality patterns in China's fragmented market environment differ significantly from those in advanced market economies (e.g., United States) situated in an integrated market environment; they also differ from those in post-socialist countries in Eastern Europe where markets emerged spontaneously following the collapse of socialist regimes (Hamm et al., 2012). Through a comparative lens, our study enriches institutional analyses of social stratification under diverse institutional contexts in the globalization era. A focus on the relationship between market conditions and state policies can also deepen our understanding of various market configurations and distinct inequality patterns across transitional economies. We hope that the proposed institutional approach suggests a promising avenue to revitalize the research on social inequality in transitional economies.

Finally, our study highlights the salient and evolving roles of organizations in social stratification amid institutional transformation. One line of research has emphasized the key role of organizations in stratification process in market economies (e.g., Baron and Bielby, 1980), and recent studies have paid attention to the role of external environment in shaping organizational impact (e.g., Stainback et al., 2010; Tomaskovic-Devey, 2014). Our study furnishes new evidence on how organizations interact with the external institutional environments and market conditions to affect social inequality. In this light, substantive institutional analyses are critical to appreciate the pivotal organizational roles in social stratification processes.

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