# ELITE OPPORTUNITY IN TRANSITIONAL ECONOMIES

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*Command economies gave Communist-era elites administrative control and material privilege but severely restricted money income and private wealth. Markets and privatization have injected new value into public assets and create unprecedented opportunities for elite insiders. These opportunities depend on the extent of regime change and barriers to asset appropriation. Regime change varies from the survival of the entire party hierarchy to its rapid collapse and defeat in competitive elections. Barriers to asset appropriation vary with the extent, pace, and form of privatization, and the concentration and liquidity of assets. Different combinations of such circumstances jointly affect the extent to which prior elites obtain ownership or control of privatized assets, use political office to extract larger incomes, move into salaried elite occupations, or fall out of the elite altogether. Regime change and barriers to asset appropriation affect change at the national level, but outcomes vary across economic sectors because of characteristics of organizations, elite positions, and assets. This elementary theory serves to integrate varied findings from recent research on Central Europe, China, and Russia, and yields predictions for other regions.*

THE FATE OF Communist-era elites in transitional economies depends on variable political processes that sociologists have been slow to incorporate into their theories. The first process is the extent of regime change: whether single-party hierarchies are dismantled along with the command economy. The second is the disposition of public assets: whether public property is converted rapidly to new owners, and if so, whether the process of privatization or the characteristics of assets permit incumbent elites to assume ownership or managerial control. These variable processes have been obscured in a literature preoccupied with evaluating claims about the inherent impact of the shift from public property and bureaucratic planning to private property and market competition.

Since questions about the impact of market allocation were first posed (Nee 1989), the number of transitional economies has grown from 1 to more than 30. In these countries market transition has proceeded under radically different political circumstances. In two notable Asian cases—China and Vietnam—party hierarchies have survived largely unchanged while directing market reform. In all others, Communist regimes have been replaced by successor states in which the survival and continuing influence of Communist-era elites varies greatly. At one extreme, the balance of power is held by challengers to the old regime who quickly established electoral democracies. At the other, Communist governments withdrew from multinational federations and continued to rule as nationalist dictatorships. Between these extremes is a mix of dictatorships and democracies dominated by neither challengers nor old regime elites (McFaul 2002).

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These political processes independently establish the set of opportunities that will be available to Communist-era elites during the course of market reform. Whether elites lose political power in the crucial early stages of market transition serves to define the political premises under which markets replace bureaucratic allocation. Efforts to predict the subsequent life chances of those who were prominent in Communist regimes must begin by specifying these political processes, which are exogenous to market transition.

Equally important is the extent to which, and the way in which, a regime's public assets are divested. In the reform Communist regimes of China and Vietnam, and in several former Soviet republics, privatization has been delayed and slow.[1] In most post-Communist regimes, privatization has proceeded more rapidly, and sometimes has been completed in less than a decade. To the extent that privatization is rapid and poorly regulated, the ability of Communist-era elites to seize assets is enhanced. Post-Communist regimes vary widely in how public assets are assigned to new owners, and opportunities for Communist-era elites vary along with these processes of privatization.

These political circumstances define the distribution of power and property under which market reform occurs. But they are obscured in recent research, which typically analyzes data from a single country to test the proposition that market reform inherently devalues political credentials and connections in favor of education, experience, and entrepreneurship (Gerber 2002; Gerber and Hout 1998; Hauser and Xie forthcoming; Nee 1996; Nee and Cao 1999; Walder 2002a; Wu and Xie 2003; Xie and Hannum 1996; Zhou 2000). Critics of this proposition have documented the persistence of official power and privilege (Bian and Logan 1996; Róna-Tas 1994), but this can also be interpreted as a symptom of partial reform (Nee 1991, 1996). Analyses of cross-sectional and time series data have demonstrated that structural and institutional features of economies cause elite advantage to vary in ways unrelated to the extent of either marketization or privatization (Gerber 2002; Gerber and Hout 1998; Parish and Michelson 1996; Walder 2002a; Wu and Xie 2003; Xie and Hannum 1996; Zhou 2000). These studies suggest that a market-centered theory might be untenable, and some argue explicitly that market allocation per se has no clear implications for elite advantage (Gerber 2002; Parish and Michelson 1996; Szelényi and Kostello 1996; Walder 1996; Wu and Xie 2003). Yet no one has offered an alternative theory that starts from a different premise: That the impact of markets is contingent on observable differences in the distribution of power and property.

## A THEORY OF ELITE OPPORTUNITY

A theory of social change in a transitional economy should focus on the opportunities and constraints faced by elites in changing political and economic circumstances. The decline of bureaucratic allocation in the face of market reform does not imply a reduction of elite opportunity. Bureaucratic power, after all, did not provide Communist elites with large private incomes or significant personal wealth. Except at the very apex of the political system, the income and other material advantages of elites in planned economies were modest, and salary differences were relatively small. The material advantages that accompanied rank were based on preferential access to public property: larger and better housing in more desirable neighborhoods, use of vacation resorts, the personal use of automobiles owned by an organization (Voslensky 1984; Walder 1992). Power and rank permitted one to readily purchase scarce goods, an advantage only in a society characterized by material shortages and depressed living standards. In short, by the standards of market economies—and today's transitional economies—the economic advantages of elites in the command economies were relatively meager.[2] From

[1] By privatization, I mean the conversion of existing public assets to new, nonpublic forms of ownership. This is distinct from other processes that may enlarge the private sector (e.g., the formation of new private firms through domestic or foreign investment).

[2] The only real exception to this statement is corruption, which became more pronounced in the Soviet Union during the Brezhnev era. All

this perspective, the decline of the organizational foundation for these privileges—the command economy—should not have clear implications for elite opportunity.

The move toward a market economy has a profound impact on stratification and mobility in a transitional economy—it provides new opportunities for elite enrichment. This is due to the ending of political constraints on the accumulation of personal wealth, the creation of new market value for access to or trading in existing public property, and the creation of new market value for official discretion in regulatory decisions and networks of influence in the bureaucracy. Because virtually all capital, real estate, and natural resources are initially under public ownership, and because incumbent elites exercise control over these assets at the outset of a market transition, they have an inherently massive advantage over other groups.[3]

Market transitions, however, take place under a wide variety of political circumstances. The extent to which potential elite advantages are realized depends on the extent of regime change and constraints on elite appropriation of public assets.

### *The Extensiveness of Regime Change*

The extensiveness of regime change is defined as the degree to which, prior to or simultaneous with the onset of market reform, Communist Party hierarchies lose their political monopoly and must compete with other organized entities for political power. In the most extensive cases of regime change, this alters political institutions in two decisive ways. First, the old party hierarchy loses its ability to appoint officials in all government agencies, public institutions, and publicly owned enterprises. Second, the hierarchy itself disintegrates, leading to the disappearance of a national system of party posts that paralleled the governmental and enterprise hierarchies within which careers were organized and which itself controlled large concentrations of property in the form of real estate, vehicles, and bank accounts. In this situation, if the former ruling party survives at all, it does so as a much smaller electoral party that offers few career opportunities and controls only meager assets. The most rapid and decisive cases of such regime change have occurred in Central Europe and the Baltics.

Where market reform proceeds under Communist rule (e.g., China and Vietnam), party hierarchies and their control over appointments and public assets are unchanged. But many of the newly independent states that emerged from the collapse of multinational federations initially exhibited little more regime change than did China and Vietnam. Party hierarchies in these new states survived largely intact. In the most extreme of these cases, former Communist parties were reborn with a nationalist orientation, and many continued to be ruled as dictatorships (Collins 2002; Jones Luong 2002; Roeder 1994).[4] In such regimes, planned economies are dismantled and market reforms are implemented by single-party dictatorships that initially preserve much of their former organizational structures, appointment powers, and assets.

The most extreme case of regime change is that of the former East Germany, where the party and governmental structures of the

such accumulations of personal wealth remained illegal, even if criminal investigations and prosecution were often lax. This exception does not alter the observation that opportunities for the accumulation of personal wealth—whether from legal or illegal means—are multiplied greatly with the transition to a market economy.

[3] At the occupational level, these advantages will vary with the nature and rank of the elite position and the assets or decisions over which the position exercises control. This implication has already been explored in several published studies (Bian and Logan 1996; Róna-Tas 1994). Several studies distinguish bureaucratic functionaries ("political" elites) from skilled managers and technical personnel ("economic" elites) and show that the two have fared differently in Central Europe and Russia (Eyal, Szelényi, and Townsley 1998; Szelényi and Szelényi 1995).

[4] The Communist hierarchies of Belarus, Kazakhstan, Kyrgyzstan, Turkmenistan, and Uzbekistan withdrew from the Soviet Union as it collapsed and established nationalist dictatorships that survived for a number of years. Serbia followed a similar path after the initial dissolution of Yugoslavia. Romania was the sole electoral democracy in which Communist-era elites held the balance of political power for a sustained period (McFaul 2002).

German Democratic Republic were rapidly dismantled as it was absorbed into the Federal Republic of Germany. Less drastic are the extensive regime changes introduced following challenges by strong oppositional movements that resulted in the disintegration of ruling parties and early elections that defeated their remnants. This process led rapidly to procedural democracies in which the balance of political power was held by challengers to the old regime.[5] Some of these new governments adopted an explicitly anti-Communist stance, rapidly dismantled former administrative structures, and passed laws designed to systematically bar those with ties to the former regime from elite positions.[6] In the middle are regimes—most notably Russia—in which neither challengers nor Communist-era elites have clearly dominated post-Communist governments.[7]

**Table 1. Estimated Private Sector Share of Gross National Product: Selected Transitional Economies, 1999**

| Country | Private Sector Share (%) | Country | Private Sector Share (%) |
|---|---|---|---|
| Belarus | 20 | Kyrgyzstan | 60 |
| Turkmenistan | 25 | Poland | 65 |
| Tajikistan | 30 | Russia | 70 |
| Uzbekistan | 45 | Lithuania | 70 |
| Vietnam | 50 | Estonia | 75 |
| China | 55 | Hungary | 80 |
| Ukraine | 55 | Czech Republic | 80 |
| Kazakhstan | 55 | | |

*Sources*: European Bank for Reconstruction and Development (1999:23–24), except Vietnam (World Bank 2002b:11) and China (refers to 1998 gross output value, calculated from State Statistical Bureau 1999).

### *Constraints on Asset Appropriation*

Elite opportunity is not defined solely by the extent to which regime change deprives incumbent elites of political influence and career opportunities. It is jointly defined by the extent to which there are constraints on their appropriation of public assets. Asset appropriation occurs when incumbent elites keep managerial control of public assets as they are privatized, or convert them into personal ownership—and this depends on the policy and regulatory environment.

The first noteworthy feature of the policy environment is the pace of the privatization process, which varies widely across countries. Many transitional economies resist the rapid conversion of state assets to some form of private ownership. By the end of the 1990s, the private sector's estimated share of gross national product in transitional economies ranged from 20 percent to 80 percent (see Table 1). This percentage is not a direct expression of the pace of privatization, but is instead the product of two separate processes: the conversion of state assets to private ownership, and the entry of new firms (through foreign investment, private investment, or small household firms). If we recognize that some of the economies in the middle range of this distribution—particularly China and Vietnam—have achieved these levels primarily through encouraging foreign investment and small scale private firms, it is even more evident that the pace of converting state assets to new ownership forms is highly variable.

State policies that delay privatization create barriers to asset appropriation. If privatization proceeds at a rapid pace, however, asset appropriation will be constrained only if there are effective regulatory prohibitions against the practice, something that

[5] According to McFaul (2002), this occurred in the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, and, after some delay, Croatia.

[6] An example is Czech laws that barred former Communist officials from holding political positions, or the purge of those whose names turned up in the files of the former security police as informers in much of Central Europe (Eyal, Szelényi, and Townsley 1998:108–11, 128–31).

[7] This category includes one current dictatorship (Tajikistan), two democracies (Bulgaria and Mongolia), and the "partial democracies" of Moldova, Russia, Ukraine, Albania, Azerbaijan, and Macedonia (McFaul 2002). King (2001a) distinguishes Russia, where regime change followed from an oppositional movement that originated within the Moscow apparatus, from Central European regimes that were overthrown by strong oppositional challengers who allied with regime defectors (Czechoslovakia, Hungary, Poland) (also see McFaul 2002:241).

varied widely across those transitional economies that moved quickly to privatize state assets. It also depends on characteristics of the assets themselves: the degree of asset concentration and their liquidity, something that varies widely across economic sectors within a country and across countries with differently structured economies. These constraints do not vary directly with the extensiveness of regime change.

***Policy and Regulatory Environment.*** While asset appropriation occurs in all transitional economies, it is relatively constrained under two very different kinds of policy/regulatory environments. The first is in the reform Communist regimes and the post-Communist dictatorships that resist privatization of public assets and that retain strong prohibitions against the theft of state property. The relatively small degree of asset appropriation under these circumstances is not due to the strength of legal and regulatory structures, which are notoriously weak, but to the delayed onset and slow pace of privatization. Under these circumstances, state agencies and public firms may engage in a form of asset *conversion* in which they transfer public assets to private entities that are under their own organizational control. These strategies permit state firms to evade state regulation and taxes by earning larger incomes off the books (Lin 2001). The proceeds may be used for a variety of purposes, including larger executive compensation (in salaries and fringe benefits) and potentially also the (corrupt) diversion of funds into private hands. In these cases, incumbent officials may extract larger incomes from such arrangements, but they do not assume ownership of these still-public assets.[8] Asset appropriation also takes place in these settings, but it proceeds at a relatively slow pace and involves a relatively small percentage of national assets, primarily in circumstances where the transfers can be hidden or where the perpetrators are able to move abroad permanently (Ding 2000a, 2000b, 2000c).

The second setting in which asset appropriation is relatively constrained is paradoxically very different from the first: extensive regime change coupled with orderly privatization that transfers assets under transparent rules. Under these circumstances, incumbent elites either lose their positions of influence too quickly to appropriate state assets, or the process of privatization is too well-regulated and monitored. The most extreme case in this regard is the former East Germany, but Poland, the Czech Republic, and Hungary also exhibit these characteristics (Eyal et al. 1998, chap. 4; King 2001a, 2001b). In countries that have sold large proportions of state enterprises directly to foreign corporations, incumbent elites have been unable to maintain control over public assets, and elite strategies to perpetuate managerial control were defeated (Hanley, King, and Janos 2003).

Constraints on asset appropriation are weak, on the other hand, under two different kinds of circumstances. The first is when a ruling Communist party survives largely intact but rules under a new name after abandoning its commitment to public property and central planning. These circumstances prevail in many of the newly independent republics that abruptly withdrew from the Soviet Union with little internal opposition or regime change. This situation permits the widespread transfer of state assets into the hands of officials, their kin, and their associates, or the extraction of large incomes from the discretionary powers of office. Elites may continue in political posts or depart from them at their discretion. In these settings the primary question is how fully the opportunities for asset appropriation are monopolized by those at the top of the hierarchy.

The second kind of circumstance that permits extensive asset appropriation occurs when a nation in the midst of extensive regime change rapidly privatizes state assets without establishing barriers to prevent insiders from seizing control. This process typically permits incumbent managers of public enterprises and industrial bureaus to retain their posts as they privatize public assets. They emerge as modern corporate executives, freed of the restraints of the command economy, who may now allocate to themselves vastly increased pay and benefits, including stock shares, typical of managerial

[8] Asset conversion differs from asset appropriation in that it does not transfer ownership or effective control of private corporate assets to individuals or other private entities. The privatized assets are owned by a public organization and the heads of that organization benefit only as long as they continue to hold public office.

practices in corporate capitalism. The process may also permit selected managers and economic bureaucrats to directly assume personal ownership of large concentrations of new privatized public assets. Those who are able to complete such maneuvers move into a newly private business oligarchy with origins in the Communist-era elite. Such outcomes were relatively common in Russia, where by 1993 regime insiders had acquired majority shares in two-thirds of privatized and privatizing firms (McFaul 1995:210) and a small number of wealthy oligarchs assumed control of certain key sectors of the economy (Goldman 2003:98–122; Hoffman 2002).[9] One economically damaging side-effect of this process is that the business oligarchy initially tends to move its assets abroad out of fear that subsequent leaders will seek to recover them (Tikhomirov 1997).

***CONCENTRATION AND FORM OF ASSETS.*** Within a given policy and regulatory environment, constraints on asset appropriation will also vary according to the concentration and form of assets in the economic sector in which incumbent elites are located. An economy with highly concentrated assets offers greater potential for elite enrichment, while dispersed assets offer fewer such opportunities. One form of high asset concentration is an industrialized urban economy in which production is concentrated in large, capital intensive firms. Extensive oil reserves, mineral deposits, or real estate that requires large capital investments to develop (often from abroad) are other examples. Such large concentrations of assets can be readily controlled by elite insiders because the assets are already organized in corporate form and under government control. At the outset of market reform, elite insiders are in control of these assets. The payoffs to incumbent elites in such sectors are potentially very large.

On the other hand, an economy with dispersed assets offers fewer opportunities for asset appropriation. An agrarian economy with widespread small-holding in which incomes are derived predominantly from agriculture is perhaps the most extreme example of dispersed assets. A small-scale entrepreneurial economy in which manufacturing and services are widely carried out by small private firms or household firms is another. In such cases, there are far fewer assets for elite insiders to appropriate because they are dispersed in a way that makes control and appropriation costly and difficult, and the amount of hard work, skill, and risk involved in deriving income from them make them much less attractive to elites, yet highly attractive and widely available to nonelites. This principle was already evident in the limited market reforms of socialist regimes that permitted small-scale entrepreneurship to flourish (Szelényi 1988).

The form in which assets are held has a similar impact: Liquid assets are easier to appropriate than tangible ones. Elite insiders have almost exclusive access to the kinds of financial instruments, asset transactions, price manipulations, international dealings, and especially information through which property changes form and large concentrations of wealth change hands. Asset transfers through these means, even large ones, are inherently difficult to monitor. Tangible assets like vehicles, tools, finished products, and land do not offer the same kind of opportunities for elites.

The recent history of Russia provides a clear illustration of this principle. Propertied oligarchs earned wealth through financial transactions in the midst of an economic crisis, while ordinary workers were paid in kind in an economy of barter or appropriated their employers' tangible assets—vehicles, tools, or machines—to supplement their incomes (Burawoy and Krotov 1992; Woodruff 1999).

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[9] "In the initial battles between the Russian government's blueprint for privatization and the interests of these directors' interest groups, societal forces from the ancien régime prevailed" (McFaul 1995:211). To explain *why* barriers to asset appropriation vary among regimes that privatized early is beyond the scope of this article, although it is evidently crucial in explaining the trajectory of change in this subset of transitional economies. One approach focuses on political processes at the national level and the balance of power within the regime itself, in particular with the ability of initial winners to block further changes inimical to their interests (Hellman 1998; McFaul 1995, 2001). Another focuses on managerial strategies at the firm level that interact with policy choices and evolve in a path-dependent fashion (King 2000a, 2000b; McDermott 2002; Stark 1996; Stark and Bruszt 1998).

| POLICY/REGULATORY CONSTRAINTS ON ASSET APPROPRIATION | EXTENSIVENESS OF REGIME CHANGE: High | EXTENSIVENESS OF REGIME CHANGE: Low |
|---|---|---|
| High | **Type 1** Communist hierarchies collapse, losing assets and appointment powers. Ruling party shrinks into electoral party and loses early elections. Systematic privatization is orderly and well regulated, limiting opportunities for asset appropriation by elites. | **Type 2** Communist hierarchies survive and continue to exercise power. The Party retains control over appointments and keeps its organization and assets. Privatization is delayed and slow, restricting opportunities for elite asset appropriation. |
| Low | **Type 3** Communist hierarchies collapse, losing assets and appointment powers. Ruling party shrinks and loses early elections. Systematic privatization is chaotic and poorly regulated, permitting extensive asset appropriation by elites. | **Type 4** Communist hierarchies survive and continue to exercise power. The Party retains control over appointments but privatizes assets. Privatization is directed by old regime elites with few barriers to asset appropriation. |

**Figure 1. Four Types of Transitional Economies, Defined by Regime Change and Policy and Regulatory Environments**

Another example is the varied impact of efforts to distribute national assets in an egalitarian fashion at the outset of market reform. Share ownership plans in which employees or citizens are given equal shares of transferable stock or vouchers have typically resulted in highly concentrated private assets in a short period of time. Ordinary individuals pressed for income sell these shares to managers or to private funds at depressed prices, and assets once held by the government are converted into large concentrations of private wealth in relatively short order (King 2001a; McFaul 1995). By contrast, the equal distribution of tangible assets like farmland, which occurred at the outset of market reform in China and Vietnam, has led to a highly equal and stable allocation of the most important productive asset in an agrarian economy, reinforced by prohibitions against land sales that prevent subsequent concentration of landholding (Oi 1989).

## TYPES OF TRANSITIONAL ECONOMIES

At the national level, the extent of regime change and the policy and regulatory environment define qualitatively different types of transitional economies. Distinctive combinations of circumstances are illustrated in simplified form in Figure 1, which defines four "pure" regime/policy types based on a crude binary distinction between "high" and "low" values for each of the two dimensions.[10] Before describing the different kinds of opportunities that each type of transitional economy affords Communist-era elites, and the kinds of elite outcomes we would expect to observe in these different situations, I first describe the political circumstances that prevail in different national settings.

In the top half of Figure 1, cases are defined by relatively high constraints on asset appropriation. There are two kinds of transitional economies that embody this characteristic. Type 1 economies are ones with extensive regime change in which Communist hierarchies collapse near the outset of reform and in which former ruling parties are

[10] The dimension defining constraints on asset appropriation is limited to the policy and regulatory environment and excludes characterization of the assets themselves, because the former tends to vary at the national level while the latter varies within nations. This would unnecessarily complicate the discussion at this point, but I shall return to the subject below.

defeated in early elections. These economies systematically privatize state assets but regulate and monitor the process in a way that places limits on asset appropriation by Communist-era elites. The former German Democratic Republic appears to most closely approximate this pure type of transitional economy. Despite significant variations across cases, the Central European regimes of the Czech Republic, Estonia, Hungary, and Poland appear to approximate this type.[11]

Type 2 economies also have relatively high constraints on asset appropriation, but for radically different reasons. Type 2 economies experience very little regime change. Communist hierarchies survive almost intact in the first decade or more of reform, leaving incumbent elites in place, seemingly well-poised to seize state assets. The only thing that restricts asset appropriation under these circumstances is that privatization of the largest concentrations of state assets is delayed for more than a decade and proceeds very slowly thereafter. In these regimes, private sector expansion occurs primarily outside the state economy, in agriculture and small-scale enterprise. Because the old elite remains in place and economic regulation is weak, asset appropriation occurs, but it is limited in scope relative to other regimes only because the pace of privatization is so slow.[12] The reform Communist regimes of China and Vietnam are clear examples, as are the post-Communist regimes of Belarus, Tajikistan, and Turkmenistan.[13]

The bottom half of Figure 1 represents economies in which constraints on asset appropriation are relatively weak. These economies, too, vary in the extent of regime change. On the lower left are Type 3 cases, which experience extensive regime change with the collapse of Communist institutions and a rapid move toward competitive elections. Despite extensive change in political institutions, constraints on asset appropriation are weak because of a period of regime instability or a privatization program that is rapid or poorly regulated. This setting provides incumbent officials with greater opportunities to maintain control of large concentrations of state assets as they are privatized (or to privatize them themselves) and to enter the emerging market economy with large business advantages. Russia is perhaps the clearest example of this type.[14]

Type 4 economies differ from Type 3 in their relatively limited extent of regime change. Like Type 2 economies, Communist hierarchies do not collapse. Instead, they withdraw from multinational federations like the former USSR or Yugoslavia and continue to rule initially as dictatorships while they abandon their commitment to state ownership and the command economy. The initial period of reform in these countries proceeds with the entire Communist-era elite still largely in place, and constrained neither by continuing state commitment to public property or by effective regulations to restrict asset appropriation. These circumstances have been approximated in the regimes that initially moved toward markets and privatization while political power was still in the hands of holdover old regime dictatorships: for example, Kazakhstan, Kyrgyzstan, and Uzbekistan.[15]

[11] These regimes all produced between 65 percent and 80 percent of GDP in the private sector by 1999 (Table 1).

[12] An alternative way of conceiving this type is that, although regulatory barriers to asset appropriation are relatively low, policy barriers are relatively high, and therefore asset appropriation simply proceeds more slowly than in the cases in the lower half of Figure 1. If privatization accelerates in this type of economy, it will evolve into one of the other three types, depending on future regime change and the regulatory environment in which the privatization takes place.

[13] By 1999, only 20 percent of GDP was produced in the private sector in Belarus, 25 percent in Turkmenistan, and 30 percent in Tajikistan (Table 1). These figures are considerably lower than those for China and Vietnam, where privatization was similarly limited but where the private sector grew rapidly through foreign investment and the proliferation of new small-scale private enterprise.

[14] In Russia, 70 percent of GDP was produced in the private sector by 1999. Other likely occupants of this category are the Ukraine, with 55 percent in the private sector, Romania, with 60 percent, and Albania, with 75 percent (European Bank 1999:24–25).

[15] By 1999, the private sector produced 45 percent to 60 percent of GDP in these three economies (Table 1).

| POLICY/REGULATORY CONSTRAINTS ON ASSET APPROPRIATION | EXTENSIVENESS OF REGIME CHANGE: High | EXTENSIVENESS OF REGIME CHANGE: Low |
|---|---|---|
| High | **Type 1** High rates of elite turnover in both political and economic organizations. Limited mobility into propertied and corporate elites. Those with higher education and skill more likely to survive in elite salaried posts. | **Type 2** Low rates of elite turnover. Cadres retain posts, use them to enhance incomes for themselves and family members, but limits on privatization delays and restricts movement into a new propertied or corporate elite. |
| Low | **Type 3** High rates of turnover in political elite, but extensive opportunities for movement into propertied and corporate elites. Lower rates of downward mobility for old elite. Advantages for the skilled and highly educated are smaller than in Type 1. | **Type 4** Low rates of elite turnover. Officials have option of extracting incomes from their posts or leaving their posts as assets are privatized. Formation of new propertied and corporate elite out of the old elite. |

**Figure 2. Elite Opportunity in Four Types of Transitional Economies**

## PATTERNS OF ELITE OPPORTUNITY

Each configuration of political circumstances that defines a transitional economy brings with it a different set of opportunities for Communist-era elites. These are briefly described as mobility outcomes in Figure 2. The horizontal dimension of the figure represents variation in overall rates of elite turnover. The more extensive the regime change, the higher the rates of elite turnover. On the left side of Figure 2 (Types 1 and 3), higher percentages of old regime elites will depart their positions and be replaced by lower ranking members of the old hierarchy or by people from entirely outside the Communist-era elite. For two reasons, this is inherent in the collapse of Communist hierarchies that defines the left side of the figure. First, the collapse of the party establishment leads to drastic reductions in the size of an entire national hierarchy of privileged elite positions: party secretaries at each level of the bureaucratic hierarchy along with heads of their associated administrative departments that manage personnel issues, appointments, and public property under party control. Occupants of these disappearing positions will be forced to find different posts or to retire early. Second, when old regime institutions are dismantled, the former ruling party no longer makes appointments to leading positions in government agencies and enterprises. A new government is free to appoint individuals who were not highly placed in the old regime, or even to purge the bureaucracy of Communists. On the right side of Figure 2 (Types 2 and 4), where Communist hierarchies remain largely intact, there will be very limited turnover of elites.

The vertical dimension of Figure 2, on the other hand, defines the rate at which communist-era elites shift from their original positions to new ones that involve ownership or managerial control of large concentrations of private capital or personal wealth—whether or not they are forced from their old positions by regime change. In the bottom half of Figure 2 (Types 3 and 4), the relative absence of constraints on asset appropriation will result in relatively high rates of elite movement into such positions, creating a new propertied and corporate elite with firm roots in the Communist hierarchy. On the top half of Figure 2 (Types 1 and 2), on the other hand, there is much less elite mobility of this type. Where regime change is extensive (Type 1), old elites will retire early or move into nonelite occupations at higher rates. Where there is little regime change (Type 2), old elites will tend to remain in their existing public posts, combining them, if possible, with new income-earning activities in emerging markets.

Of the four pure types (see Figure 2), the least favorable for Communist-era elites is Type 1, where elites lose their positions at higher rates and encounter strong barriers to appropriating assets. This opportunity set is relatively restricted: Unless elites have managerial or technical skills that are directly transferable to skilled labor markets in a corporate economy, they are likely to lose their posts, and they will have relatively few opportunities to achieve effective ownership over business assets. In the Czech Republic, Hungary, and Poland, only 39 percent of those who were in the political elite in 1988 were still in positions of authority in 1993, and another 21 percent had retired early. Over 70 percent of those in elite managerial-technical positions in 1988, however, still were in similar positions in 1993, suggesting the importance of relevant occupational experience in elite survival (Böröcz and Róna-Tas 1995; Eyal et al. 1998, chap. 4). In the same three Central European countries, fewer members of the 1988 political elite reported owning businesses in 1993 (18.4 percent) than retiring early (20.9 percent), and the vast majority of such ownership was limited shares in very small enterprises. The much larger group of managerial-technical personnel who kept their positions was no more likely to emerge with ownership shares (Eyal et al. 1998:120–23, 138–42; also see Hanley 2000a; Szelényi, Szelényi, and Kovách 1995).[16]

The most favorable outcomes for Communist-era elites are to be found in Type 4 transitional economies, in which a Communist hierarchy survives intact but abandons its commitment to public ownership. In such circumstances, elites have the option of remaining in their posts and extracting incomes from their regulatory or other discretionary powers as a market economy expands, or of entering private business through ownership or control of public assets. They also have the option of leaving office after appropriating public assets to engage in full-time business pursuits. Which option individual members of the elite choose, and their relative economic success, will depend in large part on the kind of position they occupy and the kind of influence and connections they have accumulated in the past. The lack of relevant published research on the transitional economies in which such circumstances appear to have prevailed (e.g., Kazakhstan, Kyrgyzstan, and Uzbekistan) prevents us from substantiating even broad outlines of the predicted outcomes. However, I would expect to find: little elite turnover in these regimes; a private businesses elite with strong roots in the Communist-era elite; and relatively widespread corruption, as officials who have remained in their posts extract incomes from their office.

Two intermediate types fall between the Type 1 and Type 4 extremes. Elite opportunities are relatively large in both kinds of economies, but the form of opportunity differs considerably. Approximating Type 3 are regimes in which many Communist-era elites are compelled to leave their government posts as a result of regime change (in part because many agencies, especially party organizations, are abolished). Constraints on asset appropriation, however, are relatively weak due to a period of regime instability or a privatization program that occurs rapidly or in an unregulated manner. This provides incumbent officials with greater opportunities to maintain control of public assets as they are privatized or to obtain personal ownership of assets and enter the emerging market economy with large business advantages. Russia appears to fall into this category. Elite turnover was less pronounced there than in Central Europe, in part because regime change began two years later. But 36 percent of those in the political elite in 1988 had already moved out of these positions by 1993. The ability of Soviet-era managers and planners to retain elite positions, however, was much higher than in Central Europe—only 18 percent of those in elite positions in the economic bureaucracy in 1988 were no longer in the 1993 economic elite, reflecting

[16] The same combination of circumstances appears to hold for Lithuania, Latvia, Estonia, and Slovenia, and in extreme form for East Germany. There are, however, no comparable elite surveys for these cases.

the Russian elite's ability to maintain control over assets (McFaul 1995). Moreover, almost two-thirds of the private business elite in 1993 were former members of the Communist Party (Hanley, Yershova, and Anderson 1995:654–62).

Type 2 cases are those in which incumbent elites are not compelled to leave their posts, but the delayed onset and gradual subsequent pace of privatization provide fewer opportunities for asset appropriation. Here officials have two options. The first is to remain in their posts and attempt to extract higher incomes from them. This strategy can take several forms: (1) the use of influence to obtain better jobs or business opportunities for family members, (2) the extraction of incomes from the discretionary powers of their office (including methods defined as corruption), and (3) the use of influence to assist their own family's private business undertakings. The second option is to leave their posts for a salaried position in the private sector or to open a private business of their own. Because of the slow pace of privatization in Type 2 economies and the limited ability of officials to appropriate public assets, the first option is the dominant one. Lower-ranking members of the elite may experience an initial loss of income relative to small private entrepreneurs, and political officials who have posts conducive to the generation of high incomes will do better than those with higher educations and technical skills—the reverse of the outcome in Type 1 transitions.

## THE IMPACT OF ASSET STRUCTURE

Within any given type of transitional economy, variation in the structure of assets further limits or enhances elite opportunity. The most obvious contrast within a national economy is between an industrialized urban sector, in which capital is highly concentrated under corporate control and readily converted into liquid form, and a rural agrarian sector, in which the most valuable assets are land and small-scale labor-intensive enterprise. Agrarian sectors have long been marginal in the highly urbanized economies of Central Europe and Russia, while they still dominate employment in China and Vietnam.[17] Data from rural China inspired the first round of theorizing about market transition and have figured prominently in subsequent debates. But there has been little awareness of the centrality of the distinctive asset structure of an agrarian economy in interpreting the widely analyzed Chinese case and relating it meaningfully to outcomes in urbanized Russia and Central Europe.

Assets in an agrarian economy are far less concentrated than they are in an urban industrial one, and they are held largely in tangible rather than liquid form. At the outset of China's reforms, these characteristics were enhanced and stabilized by specific policies designed to delay privatization. Collective agriculture was disbanded in favor of household production, and land was allocated to households so that virtually all had roughly equal holdings (Oi 1989). This accomplished the complete redistribution of the most important means of production in a rural economy. Furthermore, households were not granted the right to sell the land allocated to them, which prevented a subsequent concentration of landholding analogous to the concentration of stock ownership that has plagued voucher privatization plans in other transitional economies.

An additional restraint on privatization in China applied to nonagricultural assets, which were in any case relatively small-scale and dispersed. Existing public enterprises that employed more than a handful of people were kept under public ownership, and for most of the next two decades there were legal limits on the size of private enterprises. During this period rural industrial growth was led by firms that were owned and operated by village and township governments—a process that has already received widespread attention (Oi 1999; Peng 2001; Walder 1995; Whiting 2001). Not until the late 1990s, though, did these firms begin the kind of privatization observed in other transitional economies (Li and Rozelle 2000, 2003; Walder and Oi 1999).

With egalitarian landholding and strong barriers to asset appropriation, higher incomes were to be obtained by diversifying

[17] In 1990, 71 percent of China's labor force was employed in agriculture, but only 13 percent of Russia's (World Bank 2002a:35).

out of agriculture and into wage employment or private household enterprise. Cadre households have large advantages in this regard. First, having a cadre in the household means that it is already diversified into one of the better compensated forms of wage employment.[18] Second, cadres can directly appoint a family member to a salaried job or use their influence with others to do so. Third, they can use their influence to promote the private business undertakings of their own households.

Despite these potential elite advantages in China, there are widespread opportunities for others. Rapid economic growth enhances overall opportunities to diversify into wage employment and private enterprise (Walder 2002a). Growth in a rural setting induces structural change that sharply increases income for households that move out of agriculture. Ordinary households arguably benefit more from this shift because cadre households, a tiny percentage of the population, cannot monopolize opportunities (Nee 1996; Nee and Cao 1999). In an urban economy with nearly universal wage employment, ordinary households will not benefit from this kind of structural change.

The low concentration and dispersed scale of assets also mean low entry barriers to undertakings that can yield relatively high incomes. The kinds of skills needed to operate a rural enterprise are not rare—the ability to drive a truck, keep accounts, persuade or lead others, organize a construction job, cook, or repair equipment or machinery. Moreover, the amount of capital investment necessary to open a significant enterprise is relatively low. The same low entry barriers prevail in a highly developed urban economy, but small-scale entrepreneurship there does not lead so readily to elite incomes. In an economy where capital is highly concentrated in large organizations and where wage employment is almost universal, small-scale entrepreneurship is largely an alternative to unemployment or, when successful, leads to a middle-class standard of living (Hanley 2000b). In an agrarian economy, however, a moderately successful family enterprise can quickly push a household into the upper tiers of the income distribution.

In China's Type 2 transition, cadres are not forced from their posts by regime change. There are potentially large income advantages of keeping the post, and there are limited opportunities to appropriate public assets. Cadres have weak incentives to quit their posts for private business, while those in less favored occupations have strong incentives to do so and face few barriers. Event history analyses have shown that rural Chinese cadres were among the least likely to shift into private entrepreneurship between 1979 and 1996 (Walder 2002b). They were no more likely to leave their posts for private entrepreneurship than were individuals whose main occupation was farming. On the other hand, wage employees, the self-employed, and managers of public enterprises were from three to five times more likely than either cadres or farmers during this period to shift into private enterprise (Walder 2002b).[19]

The reasons why cadres so rarely vacated their posts for private enterprise are evident in virtually all recent research on rural China: The rural household is the unit of production and income, and cadre households can reap enormous benefits by diversifying into business. Income equations from a variety of rural data sets have estimated large income advantages for both cadre and entrepreneur households—of roughly equal magnitude—net of a variety of household and regional characteristics (Nee 1996; Walder 2002a; Nee and Cao 1999). Discussions of "cadre-entrepreneur" households have tended to focus on the nonsignificance of interaction terms for cadre and entrepreneur household in income equations, seemingly indicating that cadre households have no inherent advantage in extracting income from private business. However, this simply means that the advantages of cadre-entrepre-

[18] Although, as Parish and Michelson (1996: 1050) emphasize, poor rural regions are unable to compensate village leaders, and the salaries and bonuses of officeholders will rise with local economic development.

[19] The original study (Walder 2002b) did not include controls for individual age, years of education, or gender. A reanalysis of the data showed that these controls did not alter the findings. Results are available from the author on request.

neur households are *additive*: They combine the large advantages of both cadre and entrepreneur households, roughly doubling the advantages of either type. If a cadre left his or her post for private enterprise, the household would lose the large benefits of diversifying. These cadre opportunities are enhanced by the development of the rural private sector: Twenty-five percent of cadre households in the rural sample diversified into private business by 1996, but in the quartile of villages that earned the highest proportions of household income from private enterprise, twice as many of the cadre households—50 percent—also operated a family business.[20]

Although large cadre advantages have endured for almost two decades, it is clear that market reform has also created a wealthy new entrepreneur class. Not only do entrepreneur households have net income advantages equal to those of cadre households that do not go into business, they have grown to the point where they comprise 20 percent of all rural households, whereas cadre households barely reach 5 percent in the most industrialized rural regions (Walder 2002a). This shift is sometimes cited to support the argument that marketization and privatization eventually reduce the *relative* advantages of officials by opening up opportunity far beyond the old elite (Nee 1989, 1996). From this perspective, cadre advantages are a stubborn holdover of the old regime, but the continued development of a private market economy will eventually undercut cadre privilege.

A different interpretation flows from the theory I have outlined here: Cadre income advantages persist in rural China because of limited regime change and high barriers to asset appropriation, while the small scale of assets and low entry barriers to household enterprise have bred a large and relatively prosperous entrepreneurial elite. Similar outcomes have not been observed in other types of transitional economies or economic sectors that do not share this distinctive configuration of political circumstances and asset characteristics.

[20] This figure was calculated from the same data set employed in Walder (2002a) using the same definitions.

Therefore questions about the future impact of continued market reform are essentially questions about the future course of regime change and privatization. Unlike transitional economies in which the course of regime change or privatization appears to have been largely completed (in particular, Types 1 and 3), China has so far changed very slowly along both these dimensions. To predict that further privatization and marketization will erode cadre advantages is to implicitly designate Type 1 outcomes as the ultimate destination of all transitional economies. In fact, future outcomes in China (and other Type 2 economies) will depend on the subsequent course of regime change, and whether barriers to asset appropriation fall along with the regime's resistance to privatization. In the absence of accelerated regime change or strengthened regulation of privatization, future Chinese outcomes are more likely to resemble those of Types 3 or 4.[21]

## SUMMARY

A more realistic illustration of cross-national variation in elite opportunity is provided in Figure 3. Here, cases are not forced into types based on binary categories. Figure 3 reminds us that causes and outcomes exist along a continuum. In this representation, the more fully a case approximates the pure type, the closer it is located near a corner of the figure. Therefore the German Democratic Republic is likely to be the closest approximation of a pure Type 1 economy in existence, while the Central European cases will exhibit less elite turnover and somewhat higher rates of movement into the

[21] We shall soon be able to observe the impact of privatization in the rural industrial sector. In the mid-1990s, the rural public sector began a prolonged contraction through plant closures and privatization. By 2000, the number of rural public enterprises had been cut in half. Recent regional surveys indicate that in the vast majority of cases, the incumbent managers have become the owners of privatized firms (Li and Rozelle 2000, 2003). What remains to be seen is whether village leaders will begin to leave their posts at higher rates as past barriers to asset appropriation fall, or whether their offspring will move into large-scale entrepreneurship.

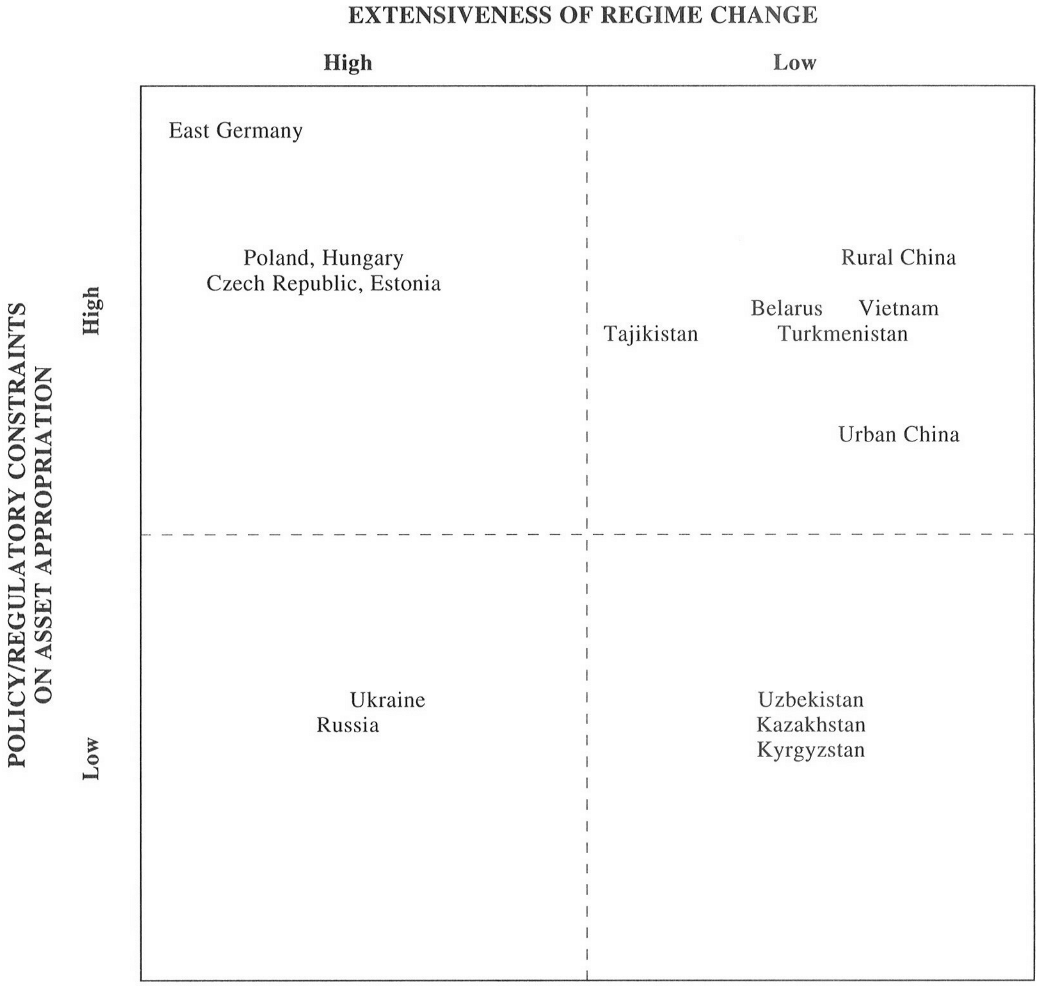


**Figure 3. Hypothetical National-Level Trajectories of Transitional Economies**

propertied and corporate elites. Similarly, the Russian case, for reasons described above, experienced less extensive regime change than did the Central European cases,[22] and therefore it is located further to the right on the regime-change dimension. In this figure I have noted the impact of variation in the concentration and form of economic assets by distinguishing China's massive rural economy from its urban counterpart. This is a reminder that national level outcomes may be as much an expression of the asset structure that defines an economy as they are a direct result of its course of political change and privatization. There are likely to be similarly consequential variations across the more highly concentrated industrial, financial, and natural resources that define an economy.

Consciousness of cross-sector variation within nations forces us to realize that change at the national level is largely the sum of mechanisms at work at lower levels of aggregation, in particular the organizational level. Further exploration of organization-level mechanisms is essential to developing a more satisfactory explanation of national trajectories of change. Any effort to accurately characterize a national trajectory forces us to develop further the elementary distinctions that define this theory. This will require a close examination of regime

[22] The primary political challenge to the Communist Party came from dissidents within the Russian party apparatus rather than from alternative elites from outside, resulting in less turnover among its political elites.

change and privatization in specific cases, something that will surely reveal qualitative variations that cannot be captured easily along a single continuum characterized as "extent" of change. The pace and timing of regime change relative to the rate of privatization is likely to be crucial in differentiating patterns of elite opportunity: What matters is the distribution of power at the time privatization occurs.[23] Another area to be further specified is the impact of the rate of privatization and the extent to which and the way in which it is regulated.[24] Such studies will inevitably lead us to modify the concepts offered here, or will provoke credible alternatives.

## CONCLUSION

The notion that opportunities for old regime elites eventually decline with the extent of reform is enduring and widespread. Sociologists are familiar with the idea in the form of parsimonious models introduced more than a decade ago (Nee 1989). Comparative work on a range of transitional economies has subsequently led to a more detailed portrayal of the policies, institutions, and political strategies that constitute the kinds of reforms that eventually reduce elite advantages (European Bank 1999; World Bank 2002a). One recent summary of a decade of policy-oriented research on the political economy of transition observed:

> Insiders and oligarchs benefit immediately from liberalization and privatization because they can convert their existing control over state assets into substantial gains. Moreover, insiders and oligarchs can reap further gains from rent seeking, arbitrage, and asset stripping. . . . As discipline is imposed and further reforms encourage competition from new entrants and the rule of law, these initial gains are dissipated. . . . (World Bank 2002a:92–93)[25]

As a portrayal of social change, this argument contains two potential sources of confusion. First, it is not in fact about opportunities for Communist-era elites through time. It is actually about the opportunities presented by existing policies and institutions at different points in a hypothetical reform sequence. The distinction is subtle but crucial, and it has sometimes been missed in the sociological literature on the subject as well. If the opportunity to appropriate assets eventually declines due to further reform, this does not *retroactively* expropriate elites who have already appropriated assets or accumulated large incomes. It means, instead, that *further* asset appropriation and extraction of incomes from office will be curtailed. Second, "extent of reform" is not the same thing as the passage of time, something made clear by careful discussion of the problem of transitional economies "getting stuck" at "a low level of reform" (World Bank 2002a:*xxiii*). If an economy spends a significant period of time in circumstances that provide incumbent elites with large opportunities, by the time more complete reforms are put into place, old regime elites will already have seized available advantages. Subsequent reform does not turn back the clock: Property appropriated and income accumulated will remain in the hands of those who possess them. Analyzing the changing features of evolving institutions is not the same thing as analyzing a trajectory of social change.

[23] Several national surveys have already attempted to measure rates of elite turnover (Eyal et al. 1998; Szelényi and Szelényi 1995), but what is crucial for our purposes is the extent of elite turnover *prior to or during the period when the initial disposition of public assets occurs*.

[24] Examples of such efforts are King (2001a, 2001b), Stark (1996), and Stark and Bruszt (1998). Such studies usually are motivated by curiosity about new organizational forms or the varied institutional paths of market reform. These studies suggest direct implications for elite mobility and are essential for understanding the sometimes subtle processes through which control can be transformed into incomes and ownership.

[25] The proposition is accompanied by a figure, captioned "winners and losers from reform," that plots "income gains" for different groups as a function of "extent of reforms." The curve for "state sector workers" declines somewhat and then levels off; the curve for "oligarchs and insiders" rises sharply to a high peak and declines steadily thereafter; the curve for "new entrants" (entrepreneurs engaged in competitive markets) rises more slowly, eventually attaining levels much higher than the curve for "insiders" (World Bank 2002a:93).

This is why we must focus on the variable features of transitional periods. Early and rapid democratization followed by well-regulated privatization sharply curtails elite opportunity. All other types of transitions provide Communist-era elites with a wide variety of economic advantages. These depend on the extent to which Communist party hierarchies are dismantled along with the command economy, forcing higher rates of elite turnover at the outset. They also depend on the allocation of public property, which varies because of policy and regulatory environments that can create barriers to, or opportunities for, asset appropriation. And they depend on the concentration and liquidity of assets in a given economic sector. This does not mean that a general theory of elite mobility in a transitional economy is impossible. It means that attempts to develop such a theory should concentrate on the variable features of market transitions that lead to such strikingly different outcomes around the globe.

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