From Mao to the Market: Community Capitalism in Rural China
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From Mao to the Market
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Xiaoshuo Hou

Abstract
China is undergoing tremendous social and economic transformations with different local innovations and variations. By comparing and contrasting three industrial villages in China demonstrating different mixes along the organizational continuum from market economy to collectivist economy, this article offers an alternative model of development that combines market production and distribution with redistribution and the building of public goods based on group boundaries. This alternative market activity is named community capitalism, a concept that has the potential to mitigate the sharp dichotomy between state socialism and market economy. The article also argues that, in order to fully understand the process of China's transition, it is necessary to take into account not only the economic and political institutions, but also the local cultural, social and political resources. It is the interaction and mixes of the two that determine the path of development local communities embark on.

Key words
China ■ collectivism ■ community capitalism ■ market economy ■ transition

TRANSITIONAL CHINA has provided scholars with many intriguing research topics. However, in line with China's ambiguous present and uncertain future, China specialists have not reached a consensus on a series of issues related to the country's transition and development. Does the Chinese case prove or disprove the conventional wisdom with regard to the transition from communism to capitalism, and the
political change from autocracy to democracy and, if so, to what extent? Is there really a ‘China model’ or is it merely a detour towards Western modernity? In this article I analyze institutional innovations in three Chinese villages and propose ‘community capitalism’ as an alternative model of development to free market capitalism. In the following sections, I first look at the features of China’s transition and three existing approaches to explaining them. I then propose ‘community capitalism’ as a new approach that synthesizes the current theoretical frameworks and mitigates the dichotomy of market and state, capitalism and communism, and use three cases to further explain this conceptualization.

China’s transition includes several characteristics that most scholars agree are important. First, despite its tremendous economic growth and its remarkable performance in the global marketplace, its political system remains largely untouched, though there are attempts to bring in democracy at the very local level, such as the direct elections in the villages. Unlike the former Soviet Union and Eastern Europe, China maintains its Marxist-Leninist ideology and the Chinese Communist Party (CCP) remains in power. There is a wide range of literature analyzing this gradualist approach towards Chinese reform and comparing it with the ‘shock therapy’ applied to the societies of the former Soviet Union (see, for example, Walder, 1996). In tune with the piecemeal reform strategies, critical changes in state policies rarely take effect immediately throughout the country; rather, experiments are carried out in some places before they spread nationwide. This leaves space for considerable local variations.

Second, what makes the Chinese transition unique must include its cultural traditions. Despite the different polities, China has, perhaps, more in common with East Asian economies, like Taiwan, Hong Kong and Singapore, than other former socialist countries. China’s fast economic growth should, in fact, be attributed partly to its East Asian location. Much of its foreign trade and investment came from the newly industrialized economies in the region during the early stage of the reform, and it is, to a large extent, still the case to date.1 As some scholars have noted, China’s reform strategy resembles, to a significant degree, the ‘East Asian model’: an authoritarian government, export-oriented strategy and preferential policies for foreign direct investment – and, most important, a population with the same work ethic and cultural tradition emphasizing achievement, sensitivity to others’ feelings (renqing, which can be understood as the emotional aspect of ‘face’) or personal connections (guanxi), and collective solidarity. How important are those traditional values to villages under the pressure from industrialization and market mechanisms? How much are socialist values still relevant to rural communities? How do different values play out in people’s daily lives? Those are critical questions concerning both the present and the future of China’s transition.

Third, since the Maoist era, China has adopted a very unbalanced development strategy in favor of those living in towns and cities. Even the introduction in rural areas of the ‘household contract responsibility system’,

1. Renqing and guanxi are Chinese terms that refer to the emotional and personal aspects of interactions, respectively.
a supposedly more radical reform policy, has not enabled peasants to achieve long-term prosperity. Rural issues in China are thus significant in their own right. As the majority of the Chinese population, rural residents are not benefiting as much from the reforms as might be expected. From collectivization in Maoist China to decollectivization during the post-Mao era, from the boom of household farming and township and village enterprises (TVEs) to the doom of urban priority development, peasants have experienced the changes from high political status — though it was mostly nominal — to substantial economic achievements, and finally to relative poverty with little political power. Therefore, it is intriguing to see how local rural communities interact with state policies, finding their way to both economic prosperity and social solidarity by mobilizing the available economic, social and political resources.

There are mainly three major bodies of literature analyzing who receives the economic benefits and who gains power as market mechanisms are introduced, and what accounts for the transition and emergence of a private economy in China. The first is market transition theory, initiated by Victor Nee in 1989 in his study of household income in rural China (Cao and Nee, 2000; Nee, 1989, 1991, 1992, 1996; Nee and Cao, 1999). It is based on Polanyi’s typology of modes of economic integration (1957 [1944]): reciprocity, redistribution and market. Institutional change in post-socialist societies is conceptualized as a transition from a redistributive economy to a market economy. This account mainly focuses on the change in power — particularly control over economic resources — in the transition of state socialism from state redistributors to direct producers or private entrepreneurs. It emphasizes that the emerging markets — market power, market incentives and market possibilities — open up opportunities for private businesses. As a result, the stratification system in socialist China has been converging with capitalist societies as market forces are replacing bureaucratic-redistributive mechanisms, and the cadre elite with political capital is losing its advantage to the business elite with human capital.

There are several variations on the market transition theory. One apparent contradiction to the market power thesis is the lingering redistributive power and the persistence of socialist institutions (Bian and Logan, 1996; Parish and Michelson, 1996). Scholars who take a more state-centered approach argue that the shift from redistribution to market is simply a more effective way of government control and the primary beneficiary of marketization is the same old ‘cadre elite’, since the bureaucrats know well how to transform political power into economic capital (Rona-Tas, 1994). Although market mechanisms have created more incentives than political directives, and people who have more technical credentials can also gain upward mobility, political affiliations remain an important determinant of elite position, thus generating ‘a divided elite’ (Walder, 1995: 309–28).

Another modification of the market transition theory is related to its dichotomy of market and redistribution. Walder (1996), for example, argues that market allocation per se has no implications for the distribution
of power and income. Those two ideal types need institutional specificities, as the pace of change and arrangements of institutional mixes may vary. Scholars since then have started to pay more attention to the process of transition rather than the outcome. Zhou (2000) proposes the co-evolution of market and state. Walder (2002) notes that in rural China the shift from agriculture to industry may have a deeper impact on institutional changes than the shift from plan to market, as returns to private entrepreneurship decline with the expansion of wage labor, while the advantages of cadre families remain stable across forms of economic expansion. He also suggests that the fate of the communist-era elite depends on the combinations of different processes of regime change and the extent, pace and form of privatization (Walder, 2003).

An important limitation of the market transition theory, as Nan Lin correctly points out, is its view of a market economy as the end product, and anything other than a market economy as transitory, while in fact other forms may persist or even provide possibilities for alternatives (1995: 305). The majority of the market transition literature focuses on the impact of institutional changes on stratification, and uses economic capital or, more specifically, income as the major measurement of other forms of capital. However, why economic capital should be the dominant form of capital in transitional China is not justified. In much of Chinese history, including the communist era, there has been a tendency to downplay the value or effectiveness of economic capital. Even in a market economy, economic capital is not the only means of rewarding or measuring social status, and the market itself is embedded in different social relations and sense-making mechanisms. In addition, it does not account for local variations under the same set of state reform policies (Lin, 1995: 308). How local governments and people interpret market transition may well affect the path of development, and economic transition is intertwined with other processes of societal, ideological, cultural and political change.

The second body of literature is based on market–bureaucracy interaction (Bruun, 1993, 1995; Pearson, 1997; Walder and Oi, 1999; Wank, 1995, 1996, 1999), which posits that China’s private economy was born out of the interdependent, clientelist ties between local state officials and private entrepreneurs. As the state becomes increasingly decentralized, more autonomy and authority, and hence more responsibilities, are passed down to local governments. Local state officials capitalize on their power and rely on private enterprises to develop local economies, while entrepreneurs depend on their ties with the local officials for resources and opportunities to initiate and develop their businesses. Therefore, there are complex relations between local governments and the central government, between local interests and national interests, and between different local governments. Jean Oi, when analyzing rural China, proposes ‘local state corporatism’ as a variation of ‘state corporatism’ in explaining the role of local governments. On the one hand, she uses the principal–agent model to explain the relation
between the state and the local governments. On the other hand, local governments ‘restrain the private sector from becoming an independent economic class’ (1999: 13), while often playing an entrepreneurial role in running the various firms within their territory.

Such a perspective provides new insight into China’s transition, especially in the rural areas, as decentralization may not lead to the demise of central command and the dominance of the market. However, the patron-client or principal-agent ties first assume that political actors are rational, a transposition of the neoclassical economic model to the political field and, second, it is based on dyadic ties. To what extent are local and central cadres rational? How do multiple ties affect one another? Clearly, cadres have other social responsibilities to meet, especially for those in rural China. A village is not only an administrative unit, but also a community, and for some industrialized villages, a large corporation too.

The third analysis is of the sociocultural roots of transition (Hamilton and Kao, 1990; Lin, 1995; Lin and Chen, 1999; Whyte, 1995, 1996). These scholars attribute the rising private economy to family-centered or kinship-based obligation and trust. Market and command forces pull their strings through social networks. Family or kinship, as a traditional and enduring social institution, after several decades of transformation under Mao, assumes two features: the declining power of the older generation and the survival of family solidarity. As a result, when economic reforms provide ideological and institutional support for private entrepreneurship, family becomes the dominant way of organizing economic undertakings, and family and pseudo-family networks become the major channels of resource mobilization.

This approach counter-balances the overemphasis on privatization or economic organization in the first two paradigms. However, just as it criticizes market transition theory for not being able to cover local variations, it also fails to account for why one type of social network, such as family ties, is stronger in certain areas than in others, and why people choose one set of ties over the other. The question, therefore, is who, and under what circumstances, uses which kinds of ties.

In sum, I argue that changes in property rights alone cannot explain the dynamics of social change in China, and it is the interaction between the economic and political institutions, together with local socioeconomic resources, that determines which path of development local communities will embark on. I propose that the local variations may well provide alternatives to the sharp dichotomy between communism and capitalism, state and market. One of these possible alternatives is what I call community capitalism, which combines market production and distribution with redistribution and the provision of public goods based on group boundaries.

In the following sections, I explain the mechanisms of community capitalism, and provide three cases to illustrate this conceptualization.
Community Capitalism: Theoretical Propositions

Community capitalism represents an alternative model of development for transitional societies. Here community is widely defined as a group with a commonly recognized identity and where group members more or less share common interests. The three cases that I discuss later happen to be villages – the smallest local communities in rural China. Villages are not considered to be official administrative units but self-governing entities in China, although the Party-State does penetrate into them. Community capitalism mobilizes and organizes economic, political and social capital at the community level to compete for resources at the upper levels and in the global market. At the local level, it provides public goods and social welfare benefits, such as housing, education and health care, to community members through redistribution. The model is sustained by common values and group boundaries created by community membership, and family and pseudo-family networks, at the core of which are usually the community elite who have come into power.

Community capitalism is different from both traditional state socialism and free market capitalism. First of all, it is capitalist, as communities actively participate in the market and produce for profits. In fact, all of the three villages that I discuss are not only communities but also collectively owned corporations, and one of them has already been listed on the Shenzhen Stock Exchange. Second, the village government works as an executive board to distribute resources and welfare benefits, and, at the same time, makes economic decisions and competes for resources from upper-level administrations on behalf of the villagers. As a result, community is both a unit of redistribution and an entity competing in the market. In addition, villages maintain collectivist values as a sense-making mechanism to justify the profit-driven activities, hold onto their members and sustain the model. To some extent, community capitalism is a capitalist form of economic arrangement without the introduction of the full set of capitalist values. Local states both guide and participate in economic activities, and traditional family values as well as the legacies of socialism play an important role in providing a safety net for the villagers and achieving social cohesion.

Data and Discussion: Three Local Variations

In this section, I analyze three industrial villages (Figure 1), all among the ten wealthiest villages in China, along the axes of ownership structure, institutional arrangements, and culture and social networks. The villages are organized on a continuum from market economy to collectivist economy, demonstrating various forms of organizational hybrids (Table 1). Data in this section are based on my field research in China from 2003 to 2006.

Nanjie Village, located in Henan province in northern China, has adopted a strategy encapsulated by the slogan ‘circle on the outside and square on the inside’. In contrast to the large-scale privatization taking
place in China, Nanjie Village maintains its collective ownership and many of the characteristic features of the Maoist era, such as singing revolutionary songs and reciting from the ‘Red Bible’. Meanwhile, over the past three decades, the village has developed dozens of collectively owned and operated factories and companies ranging from food-processing to pharmaceuticals, and has thus been able to provide its villagers with better social welfare than most other rural communities in China.

Huaxi Village, in Jiangsu province, is one of the representatives of the famous Sunan or Southern Jiangsu model, and now the richest village in China. The village’s economic performance and living conditions surpass those of many cities in China and even in the US. By 2005 the village’s total industrial output had exceeded 25.5 billion yuan (about $3.6 billion) (Lu, 2006: 349) and the average annual income had reached 35,002 yuan per capita (about $5000) (2006: 393). While the halo over the township and village enterprises (TVEs) characteristic of the Sunan model lost its glamour in the 1990s, Huaxi has stayed on its path with the innovation of a property system in which each villager becomes a shareholder in the village enterprises.

Figure 1 Locations of the three villages. Source: http://www.glasslinks.com/images/chinamap.gif. Village locations are marked by the author.
Shangyuan Village, on the other hand, is located in Wenzhou, Zhejiang province, a place known for its prosperous family businesses and hard-working private entrepreneurs. Despite its thriving private economy, Shangyuan Village retains collective control over the use of land, something similar to a shareholding land cooperative. The village developed several commercial clusters including a low-voltage electrical equipment market and a nonferrous metal market, and distributes dividends to the villagers from the rent collected. In this way, villagers are guaranteed a minimum income, housing and a storefront (dianmian). Meanwhile, because of those marketplaces, the boom in real estate prices supplies the villagers with extra economic benefits. As a result, while competing in the market, private entrepreneurs are provided with a safety net sustained by collective planning for the land.

**Ownership Structure**

China's land ownership is fundamentally public. In the cities, land is owned by the state, while in the villages, land is officially owned by the collective, a policy left over from the commune era. However, a bundle of property rights has been transferred to peasants in most of the villages by means of leasing. In fact, the National People’s Congress passed a property

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**Table 1 Basic statistics of the three villages**

<table>
<thead>
<tr>
<th></th>
<th>Nanjie</th>
<th>Huaxi**</th>
<th>Shangyuan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>3180</td>
<td>Over 30,000 (1708)</td>
<td>1475</td>
</tr>
<tr>
<td>Land area (square km)</td>
<td>1.78</td>
<td>30 (0.98)</td>
<td>0.56</td>
</tr>
<tr>
<td>Industrial output (2005, billion yuan)</td>
<td>1.2</td>
<td>25.5</td>
<td>N/A for private enterprises; net asset value of the collective portion of the economy: 0.355</td>
</tr>
<tr>
<td>Average annual income (2005, yuan per capita)</td>
<td>&lt;3000 (with a grey area)</td>
<td>11,251 (35,002)***</td>
<td>31,800</td>
</tr>
<tr>
<td>Welfare benefits (yuan per capita)</td>
<td>approximately 6000 (including the cash value of in-kind benefits)</td>
<td>3000 + dividends</td>
<td>1480 + dividends</td>
</tr>
</tbody>
</table>

*Data in the table are based on village brochures, archived documents, and my interviews.

**In order to meet the growing demand for land stimulated by industrial development, and also as a way to help the neighboring villages get rich, Huaxi merged 16 villages between 2001 and 2004, to become Huaxi’s number 1–12 villages. Data in parentheses are for the original Huaxi village.

***Huaxi has a unique distribution system that I will discuss in the following section. The average annual income here does not include the savings of each household.

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rights law on 16 March 2007, which, for the first time since 1949, offers legal protection to private property, including the means of production like factories and workshops. However, agricultural land remains collectively owned, and the current 30-year leasing term to the peasants is untouched by the law (Bezlova, 2007). This means that peasants cannot sell or buy land, and they are unable to borrow against it as a mortgage for cash to invest in tools, machinery or other products.

While land is collectively owned, the use of land in many villages has been privatized, although the village can adjust land distribution at the end of each lease. However, the right of land use is also collectively owned in the case of Nanjie and Huaxi, while in Shangyuan the use right is leased back to the collective so that the village can be planned as a whole. Each household in Shangyuan in turn gets a storefront that it can either rent to others or use to run its own businesses, an apartment and dividends from the collectively owned rental markets.

If we analyze the three villages by their patterns of economic flow—production, distribution and consumption—the structure of different property rights leads to different paths in the economic flow. For Nanjie and Huaxi, the factors of production (land, labor, capital, technology and organization) are controlled by the collective as a large communally owned corporation. For Shangyuan, only land and a certain amount of capital and organization are controlled by the collective, as private household businesses are prevalent. Also, land is pooled together as the villagers’ factor input, which generates dividends according to their share of the land. All of the three villages are registered as corporations, although, in the case of Nanjie and Huaxi, villagers are not only shareholders but also employees.

Distribution in Nanjie and Huaxi, on the other hand, is two-fold: as corporations, products are distributed through exchanges on the market, although personal networks (guanxi) and collective reputation often exert influence on market transactions; as a community, resource allocation has a redistributive mechanism by means of the social welfare system. Shangyuan is similar, except for the fact that the market plays a larger role.

For consumption, what portion of the profits should be put into production and what allocated for consumption is determined by the collective in Nanjie and Huaxi; therefore, besides the rationed non-cash benefits and wages, saving and reinvestment into production is mandatory, although in Nanjie the villagers’ purchasing power is further limited because of the low disposable income. In Nanjie, 250 yuan (about $36) a month is the ceiling salary for the villagers, although migrant workers, managers and technicians are paid according to market prices, and villagers who work as salespeople can get commissions from each deal they strike. Some cadres are allowed to sign bills for dining at the village restaurants and accommodation at the village hotel to the collective account, and salespeople can also be reimbursed for their phone bills and when providing gifts to current or potential clients. Therefore, in addition to the equal distribution of income, there can be a ‘grey’ area of income for villagers, and that part varies with
regard to one’s power, mores and the nature of the job. At the same time, the community provides its members with free basic consumer products and services such as food, furnished apartments, internet access, medical care, etc., while in Huaxi such benefits extend to automobiles and other luxury goods. Therefore, people do not need to spend much cash while they stay in the community. Of course, lack of cash or disposable income will pose problems when villagers travel outside the community. In a sense, this consumption mechanism maintains group boundaries but also limits mobility.

According to Huaxi’s official sources, the poorest villager has 1 million yuan (about $120,000) of savings and the richest does not exceed 10 million yuan (about $1,200,000). Every family has a house, though with different square footages, and at least one car. Wu Renbao, who was Huaxi’s Party secretary from 1961 to 2003, when his youngest son was elected as the new Party secretary, wanted everyone in Huaxi to be rich, but not equally rich. As a result, the distribution system in Huaxi is unique. It is a mix of three forms: socialist distribution, based on one’s labor input, with 20 percent of the bonus in cash, and the other 80 percent in the form of factory shares, similar to the employee stock options in the US; communist distribution, based on one’s need, with every villager enjoying welfare benefits worth at least 2800 yuan per year; and capitalist distribution linked to dividends – what Wu Renbao calls the type of distribution found under the ‘preliminary stage of socialism’ – which pays villagers dividends according to their ownership of village shares, usually at a rate of 5 percent (Wu, 2004: 3–4).

To explain the system in more detail, before 2003, for each village factory, 20 percent of the profits were ploughed back into the factory, and the remaining 80 percent were retained by the corporate group. Now it is a 50/50 split. For the amount of profits kept in the factory, 10 percent goes to the director, 30 percent is divided up among other factory executives, another 30 percent is distributed to workers who are Huaxi villagers – 20 percent in cash and 80 percent as factory shares – and the remaining 30 percent is reserved for reinvestment. In addition to the bonus linked to the profits of the factories, each villager also has a fixed annual bonus that is three times their base salary.

In sum, for villagers, as long as they work in the village enterprises, their rewards include the base salary (500–1000 yuan), a bonus (a fixed part of 1500–3000 yuan plus an extra amount commensurate with factory performance) and an additional dividend of 5 percent for the capital villagers have invested. Retired villagers (females at the age of 50 and males at the age of 55) receive pensions ranging from 7700 to 13,600 yuan per year, and all of their dining expenses and 90 percent of their health expenses are covered by the village. Migrant workers, on the other hand, do not have dividends or factory shares.

Huaxi’s ideology promotes the idea that villagers should ‘talk more about accumulation, less about distribution; distribute less cash, and leave more for the transformation of the enterprises’ (shao fenpei, duo jilei, shao
Therefore, how much to be distributed for personal disposal and how much to be held for reinvestment is constrained by the decisions of the leadership. Though a person may have millions of yuan in his household savings account, he cannot freely withdraw the money, as the account is kept by the village. Each year only 1 percent of the dividends can actually be cashed out; the remaining part is reinvested into the village enterprises and credited to the villager’s personal account. If one leaves the village, all the money in the account will be forfeited to the village. This manner of distribution serves at least two purposes. First, villagers are forced to stay and contribute to the village, because the costs of leaving the collective are too high; second, the village as a whole has a greater cash flow to expand existing projects and develop new ones. Such an arrangement can be viewed as a collective financing process, with each villager offering loans with an indefinite maturity to the community through the value of their labor input and cash contributions. Of course, it also provides villagers with a good source of investment with a high interest rate and no risks as the return rate is fixed.

This financing and distribution structure is different from Nanjie’s, as personal investment is closely tied to the performances of village enterprises in Huaxi, whereas in Nanjie personal investment is limited to the funding at the outset of the village’s industrialization. Later on, launching of new projects relies largely on loans from the banks, which increases Nanjie’s vulnerability to changes in state macroeconomic policies. Nevertheless, Nanjie villagers get a fixed and low income, and the difference between the market price of their labor and the actual income they receive can also be regarded as their investment to sustain the public good.

Shangyuan, however, does not have village-run enterprises, so whether to consume or reinvest is more of a personal decision. The land system in Shangyuan is close to what is called a ‘shareholding land co-operative’ or ‘land for shares’ (gutian zhi), in which the village government collects contracted lots from villagers, consolidates them into larger tracts, and then rents them to third parties. Villagers’ land rights are converted into shares in this land cooperative and villagers are entitled to dividends derived from the income generated by the land. Shangyuan, by consolidating the land, built five commercial units: a low-voltage electrical equipment market, a nonferrous metal market, a department store, a multi-purpose building and a parking lot, to collect rent. Ten percent of the revenue goes to insurance, 20 percent goes to property management, 30 percent is reserved in the collective fund, while the remaining 40 percent is distributed to the villagers as dividends. In addition, every villager is paid 1480 yuan a year as a subsistence fee, since they are left with no farmland to produce crops. Therefore, unlike Huaxi and Nanjie, the village government serves more as a broker than an executive board. Naturally, different village cultures and geographic locations also influence people’s consumption behaviors.
As a result, we cannot simply divide property rights into collective and private, for all agricultural land is collectively owned, but the way of organizing property rights can be varied (Table 2). Contrary to the market transition theory, property rights alone cannot determine the effectiveness of an economy, as the three villages, despite different ownership structures, all provide their villagers with relatively good living conditions, and the process of adjusting property rights is a function of traditions, state policies, local cultures and the power of different interest groups.

Institutional Structures

North (1981) points out the importance of the state in facilitating institutional change through defining property rights and effecting institutionalized norms to reduce transaction costs. Nee calls the current path of development in China politicized capitalism, or state capitalism (2005: 53–74), as the state’s control over resources lingers on. However, unlike the old institutionalism, new institutionalism emphasizes not only the ‘top-down’ processes, including constitutive activities, diffusion, socialization, imposition, authorization, inducement and imprinting, but also the ‘bottom-up’ process, including selective attention, interpretation and sense-making, identity construction, error, invention, conformity and reproduction of patterns, compromise, avoidance, defiance and manipulation, from the lower-level institutions (Scott, 2001: 196). Therefore, it is also important to take into account the local state, as the same state policies often give rise to distinct ways of social and economic organization. Local communities are in a constant bargaining process with the state for attention, resources and to maintain their identities.

In transitional China, during the dual transformation – from an agrarian society to an industrial society and from a planned economy to a market economy – there have been various paths of development. Both Nanjie and Huaxi that have a thriving collective economy and receive abundant state resources have strong local governments, especially Party apparatuses. In order to institutionalize collectivism, the villages have

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<th>Nanjie</th>
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<tbody>
<tr>
<td>Production Distribution</td>
<td>Collective Market</td>
<td>Collective Market</td>
<td></td>
</tr>
<tr>
<td>Redistribution (quasi-egalitarian)</td>
<td>Fixed proportion of profits (little cash)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumption Redistribution (differential)</td>
<td>Fixed proportion of income, bonus and dividends</td>
<td></td>
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<tr>
<td></td>
<td>Redist (rent distribution)</td>
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<tr>
<td></td>
<td>Personal decision (minus the village’s maintenance costs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redistribution</td>
<td>Collective + Private</td>
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Table 2 Economic flow and ownership structure
created a multiple incentive system that integrates economic incentive and sociopolitical pressure, and a patriarchal governance structure. They participate in market exchanges, but still maintain a relatively close-knit community, because of the villagers’ dependence on the collective and the boundary set between villagers and non-villagers that has evolved into a unique group identity. The local government, led by the village Party secretary, exerts power very similar to that of a patriarch, and the entire village is managed as if it were an extended family, though the inhabitants may not necessarily have any blood relationships. Villagers rely on the local leadership, or the patriarch, for living and jurisdiction, and the government represents the villagers when competing for state resources and making ‘rational’ economic decisions. Unlike in prototypical capitalism, the government both sets rules and controls resources for production, and is both a political and an economic actor.

However, Nanjie and Huaxi are at different levels of the market economy, and their internal management is distinct. The leadership in Nanjie believes that monetary rewards can trigger the endless pursuit of self-interest and are thus detrimental to the collective. As a result, the incentive structure is based more on ideal and moral interests than material interests, although the government seems to realize the limitations of moral appeals. Consequently, the ‘ten-star model family’ contest and the Village Code of Conduct (Cungui Minyu) both resort to economic sanctions. The Code of Conduct consists of three sections: morality, work and life, and each section is divided into two parts: issues and settlements. For example, in the morality section, the sanction for ‘not willing to contribute to building the Nanjie community’ is to revoke all the welfare benefits enjoyed by the whole family (parents, husband/wife, children), and the family cannot leave the community unless they repay the debt they owe to the village (the welfare benefits they have previously enjoyed).

There are various incentives for villagers to obey the rules and support the norms and values of the community. First, the ideal that the village will be built into ‘a communist heaven’, which appeals to those who are nostalgic for the ‘good old days’ in Maoist China and also reminds the villagers that they are working for a righteous cause with a noble end. Second, the moral incentive that the whole village is a common interest group so that the failure of one leads to the failure of others, and the same with success (yì róng jù róng, yì sūn jù sūn). Third is the material incentive of reaching a high standard of living, and finally there is the status incentive of being promoted to important positions and/or respected by the villagers.

Nevertheless, one of the problems with the incentive structure in Nanjie is that, after the economy has reached a certain level, there might be little motivation for the villagers to continue at the same speed of development. This is because the distribution system is not correlated with profits after a certain point, that is, more profits do not result in more income or much higher social welfare, since incomes are almost fixed, and the welfare system has already covered most of an individual’s necessities.
Also, the same incentive structure for all is deemed ineffective and, at the end of the day, only those satisfied with the status quo – and oftentimes members who are least productive, competitive and ambitious – will stay, which is harmful for keeping up the momentum for innovation.

Huaxi, on the other hand, has a more complex system of rewards, so the material incentive is stronger, as villagers are both workers and shareholders. They have constantly invested their labor and capital in the collective economy because of the forced reinvestment and the fact that most of their assets cannot be converted into cash. As a result, the longer one stays in the village the less likely it is that one will leave, as the cost of departure is much higher than in Nanjie. Meanwhile, the expansion of the original village to incorporate its neighboring villages provides greater social cohesion, especially among the original villagers, giving them more moral and status incentives. The problem with Huaxi lies in its social integration: how to combine people receiving different rewards and have them contribute with equal productivity to the system, as there is no ideal incentive.

Both Huaxi and Nanjie, in certain respects, are not that different from many large family businesses in Japan and South Korea that have a dynamic and highly respected leader, a management style similar to the military, and an emphasis on collective goals over individual interests. Whether Nanjie will become the same hybrid form as Huaxi depends on how much it can hold on to the communist ideology and the quasi-egalitarian distribution system that has little to do with an individual’s abilities and achievements.

Shangyuan does not have as strong a local government, partly because of its location in Wenzhou, which was the first state-designated ‘special experimental zone for the development of the commodity economy’ in 1986. Also, as a result of Wenzhou’s model of the ‘cluster economy’, Shangyuan is able to take advantage of the industry for electrical equipment, and profits from building marketplaces to collect rent. In this way, the local leadership has very little control over the resources needed for production except for land, and mainly serves to set rules and assist private enterprises, which is close to the role of government in prototypical capitalist systems. The management of economic and social activities is more diffuse than in Nanjie and Huaxi, and each household controls itself in terms of production and daily lives.

Nevertheless, such a manner of organization is not completely individualistic, as kinship ties replace the patriarchal government. When it was almost impossible for private ventures to get loans from state-run banks, the people of Wenzhou managed to mobilize private capital through their networks, including traditional, self-organized credit associations and private loans, arranged directly or through a middleman who would receive a fee. In addition, private banks and credit unions were also established to fund non-public enterprises from as early as the 1980s (Parris, 1993: 248). Furthermore, because of the initial small scale of household businesses, entrepreneurs in Wenzhou are good at grouping together to strike a better
and bigger deal from which all enterprises can benefit, thus creating the ‘cluster economy’. Such voluntary business associations are often based on family and kinship ties. The major incentive structure in Shangyuan is material rather than moral; however, the moral responsibilities to one’s family and kin also come into play (Table 3). Moreover, the expanding collective sector in Shangyuan’s economy requires stronger community leadership, and will probably revitalize people’s community identity.

**Culture and Social Networks**

Social transformations are frequently restricted by past and existing institutional structures, often described as ‘structural inertia’ or ‘path dependency’. Culture and values are part of the normative structures that can influence the direction of development. Swedberg, following Weber, emphasizes the cultural aspect of economic action, which includes valuation and sense-making. Anything economic is ‘typically viewed as being either positive or negative’, and economic phenomena, ‘like all human phenomena, have somehow to be pieced together in the human mind in order to make sense and acquire a distinct Gestalt’ (Swedberg, 2005: 25). As market forces are introduced, the previously held socialist values are greatly challenged. Therefore, people need new sense-making mechanisms to evaluate the reality: why should we make money? How should we make money? What happens after we have made money? In the cases of Nanjie and Huaxi, collectively owned enterprises legitimize ‘profits’ as they serve the public good, and, borrowing the same institutional arrangement from recent times, the sense-making turns ‘immediate interest into “interest properly understood”’ (Swedberg, 2005: 26).

On the other hand, historically perceived as a strategically vulnerable frontline against Taiwan, Wenzhou received little state investment. As a result of unfavorable natural conditions and lack of state support, it turned

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**Table 3 Different models of social and economic integration**

<table>
<thead>
<tr>
<th></th>
<th>Nanjie</th>
<th>Huaxi</th>
<th>Shangyuan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of the local state</td>
<td>Centralized; set rules and control resources for production</td>
<td>Centralized; set rules and control resources for production</td>
<td>Decentralized; set rules and control only land</td>
</tr>
<tr>
<td>Incentive structure</td>
<td>More moral and ideal than material</td>
<td>Material and moral</td>
<td>Mainly material with moral obligations to family and kin</td>
</tr>
<tr>
<td>Analogy</td>
<td>The military</td>
<td>A conglomerate (e.g. Japanese keiretsu)</td>
<td>An ethnic enclave</td>
</tr>
</tbody>
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to self-reliance. Though a dualistic economic ethic is supposed to be detrimental to capitalist development, as members are honest only to fellow members but unscrupulous to non-members, it is utilized in Shangyuan and in Wenzhou more generally. This serves to cement community members together in order to compete with outsiders and as mutual assistance in the form of economies of scale, since a collective economy has never been strong. As a result, social networks based on family and kinship ties have played a larger role in Shangyuan than in Huaxi and Nanjie. This culture was particularly useful in the early stage of capitalist development in Wenzhou. Relatives and friends would pool their funds together in the form of cooperatives or partnerships (Parris, 1993: 246). The aforementioned credit unions and private banks issued credit based more on trust and reputation than on contracts.

Not only do institutional mechanisms constrain organizational practice and structure, individuals and organizations also innovate and contribute to institutional change. Informal social networks play an important role in the choices of paths to development. Here it is necessary to analyze both the principal/agent networks and the agent/member networks, that is, the networks between the state and other upper-level government officials and local cadres, and the networks between local cadres, elites, and villagers, as their configurations affect who uses what kind of ties under what circumstances. The former determines what kind of resources the local communities can mobilize, and the latter determines the incentive structure and the mechanism for the distribution of resources in local communities.

In Nanjie and Huaxi, because of the Party secretary’s connections with upper-level governments, the villages have more political capital, which can bring to them information, tax deductions, or, in the case of Nanjie, direct access to bank loans. In Shangyuan, because of Wenzhou’s overall lack of state support, villagers have to resort to their own resources. However, the location of Shangyuan in the town center connects it with the township government, and makes possible the development of infrastructure like highways and various marketplaces.

Within the communities, how close the villagers are and how strong the leadership is decides what kind of incentives the villages use to stabilize the social order and the ways of organizing economic and social resources. In all three cases, we can discover a distribution system dependent on group boundaries. Though it is only in the Shangyuan case that production is actually organized around family and kinship ties in the form of household firms, the stratification mechanisms used in Huaxi and Nanjie follow a similar pattern. People who have family or pseudo-family ties with the ‘patriarch’ are promoted to the core of the leadership; more prestigious jobs are saved for villagers, and at the bottom of the stratification system are the migrant workers. On the other hand, the social welfare benefits are also distributed according to a person’s proximity to the center of the village networks.
Conclusion: The Rationality of Collectivism and Community Capitalism

As the globe is struggling to escape from its deepest recession in decades, with record high unemployment rates, stagnant economic growth, plunging consumer spending, and rising social tensions, there is an increasing debate over whether this showcases the curse of laissez-faire and the end of American-style capitalism. The new mantra 'socialism for the rich, capitalism for the poor', though in many ways over-generalized and simplistic, does catch the core of this analysis: surging social inequalities within and between nations and the blind worship of the magic of the 'invisible hand'. As governments in advanced capitalist countries in America and Europe start to talk about state intervention, regulations and public-funded projects to stimulate the market and restore the socioeconomic order, it seems to be a perfect moment to consider alternative models of development, and particularly the relationship between the state and the market. After all, capitalism is a way of organizing resources, and it is hardly surprising that there is not just one form of this economic arrangement.

Weber suggests that in addition to the formal rationality of economic action, there is also the substantive rationality. It is:

\[\text{not sufficient to consider only the purely formal fact that calculations are being made on grounds of expediency by the methods which are, among those available, technically the most nearly adequate. In addition, it is necessary to take account of the fact that economic activity is oriented to ultimate ends (\textit{Forderungen}) of some kind, whether they be ethical, political, utilitarian, hedonistic, the attainment of social distinction, of social equality, or of anything else.}\] (1947: 185)

In all three cases, collectivism is \textit{reasonable} and has its rationality, though it is not necessarily the most efficient form of production. Collectivism solves the problem where both the state and the market fail. It prepares villagers for the transition from an agrarian society to an industrial society and pools resources to compete in the market that usually disadvantages the peasants. Instead of releasing the villagers to wander around in the cities and huddle in urban slums, collectivism keeps them both within the community and employed, and it helps transform the village.

In Nanjie and Huaxi, free-riding problems in a collectivist economy are mitigated by a combination of peer pressure and the boundary set between villagers and non-villagers. Therefore, collective interests are not empty words but indeed involve various stakes and commitments that the villagers have put in. Both profits and risks are shared among members. Moreover, in a collective environment, there is also the incentive of gaining respect and acknowledgement from other members – similar to what Offer (1997) calls an ‘economy of regard’ – while the patriarchal system routinizes charismatic authority and stabilizes the collective model.
The validity of the collective model lies in its protection of the underprivileged peasants and its ability to pool economic, social and political resources. As the state’s reform and opening-up policy brings in market mechanisms, most peasants are not prepared for market competition. In the meantime, agriculture alone cannot provide peasants with subsistence in many areas. Even for those who are ready to leave the land and become peasant workers, social mobility is highly limited, and they often take on jobs that are the lowest paid and most stressful. They are— to borrow Callon’s term— the ‘orphan group’, excluded from the economic and technological development created by the dynamics of the market (2007: 141). Instead of counting on individual abilities, the collective model offers a safety net. It accelerates rural urbanization and industrialization, while the development of the infrastructure, health care, education and other ‘public goods’ are given priority.

On the other hand, collective networks can make the enterprises more competitive. The emphasis on collective interests leaves the village enterprises with more capital to reinvest and the village more funds to build its infrastructure, as labor costs are low. The various business opportunities are the result of mobilizing the networks with fellow villagers who work in other regions and their personal contacts. Moreover, as a collective, the village enterprise is in a better position to bargain with the state and upper-level governments for preferential policies and resources. In Shangyuan’s case, the community provides private entrepreneurs with a safety net under market competition and supplies them with social, economic and political capital that is often inaccessible in a mixed economy.

Of course, we can also see the influence of the transition of the larger social context on local communities. For example, for Nanjie and Huaxi, the traditional division of village elite and villagers was changed into a division of Party leaders and villagers as the communist state penetrated the communities. As the market entered into the villages, a managerial elite started to form, and traditional farming was replaced by industrial production. In locations where the Party apparatus is strong, the managerial elite will be recruited into the Party and join the political elite. Therefore, Huaxi and Nanjie emphasize that their leaders should be ‘capable’ both politically and economically, that is, have both political and human capital. Human capital does not necessarily correlate with one’s educational credentials but more with the individual’s performance in managing the collective enterprises. As a result, either political leaders are converted into executives or executives are assimilated into the Party. For places like Shangyuan, where the Party leadership is not strong, the economy and the maintenance of community social welfare are increasingly separated. In some villages social welfare has completely disappeared and peasants are left on their own. Shangyuan still keeps its community organization, mainly around the village elite who are elected into the Party leadership. They secure a safety net for the private entrepreneurs who fight for survival in the market.
Market exchanges and redistribution in Polanyi’s typology were not an either/or issue. Although socialism is often seen as associated with redistribution and capitalism with market exchanges, there has never been a market or a redistributive system in its purest form. The real difference lies in the purpose of production, distribution and consumption, with the market system emphasizing efficiency and maximization of profits and the redistributive system focusing on equality and social welfare. I argue that the alternative model that the three cases suggest is community capitalism. The household responsibility system that privatizes land rights can increase agricultural productivity. However, productivity does not necessarily bring about economic development, much less social development, especially where land is scarce and population is dense. Collectivization of land rights is more conducive to industrialization, and offers peasants the social welfare benefits that the market is eroding yet the state is not yet capable of providing. Whether or not there should be collective enterprises depends on local tradition and leadership; however, there must definitely be some kind of social organization that can provide public goods, and in a developing country as large and diverse as China, such a function can well be delegated to local communities. It remains to be seen whether community capitalism can work for urban areas.

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Notes
1. According to the statistics published by the Chinese Ministry of Commerce, by October 2007, Japan, ASEAN, Hong Kong, South Korea and Taiwan were among the top ten trading partners with China (see: http://english.mofcom.gov.cn/article/statistic/ie/200711/20071105255273.html).
2. China Statistical Yearbook 2006 [Zhongguo Tongji Nianjian 2006] indicates that, as of 2005, China’s rural population still accounted for more than 57 percent of the total population, that is, more than 745 million people.
3. China has five levels of administration: the central government, provinces (including four municipalities directly under the central government: Beijing, Shanghai, Tianjin, and Chongqing), cities/city-level counties, counties/city districts and towns. Village governments are not counted as an official administrative level, but they are responsible for implementing the policies from the administrative levels above them and are in direct contact with peasants.
4. I visited Nanjie on four occasions. My first visit took place at the end of 2003, and I spent a week there. That was the first time I became intrigued by the village. I returned to the village in the summer of 2004, and was able to establish some contacts there. My third visit was in the winter of 2005, when I created a
preliminary survey for some of the villagers to test, and also interviewed extensively. I went for the fourth time in the summer of 2006 with refined surveys, and conducted in-depth interviews with 30 people, many of which lasted more than one hour. My interviewees included village cadres, county cadres, ordinary villagers, people from the neighboring area and migrant workers. I also observed how people work, and attended several village-wide meetings. I spent six months in China in 2006, conducting field research. Besides the time spent in Nanjie, I also visited Huaxi, Shangyuan and other regions in or near Wenzhou. Although my personal networks in those villages provided initial contacts and interviewees, especially with the help from local organizations like workers unions and youth leagues, further interviews depended on snowballing and random selection to find more diversified subjects and more objective answers. I conducted 30 in-depth interviews in Huaxi and 10 in Shangyuan. I also interviewed business owners in Wenzhou city to get a better sense of the ‘Wenzhou model’. All the interviews were conducted in Mandarin. In addition, internal publications and archives were also a major source of information. Most of the ethnographic details are omitted in this article.

5. Personal networks or collective networks often provide the villages with market information and other economic and political resources, such as potential investors and business partners, technical support and loans. Especially in the case of Nanjie, easy access to bank loans in the early 1990s provided the village with sufficient start-up funds to build up factories and compete in the market.

6. Evidence from my interview with Mr Li, a tourist guide in Huaxi’s Travel Service Company, revealed that Huaxi villagers receive 3000 yuan (about $440) a year as reimbursement for their utilities bills and other expenses. Each villager also receives 300 jin of rice every year at a price of 1 yuan per jin, which is lower than the market price. He said that most daily expenses can be covered by the 3000 yuan allowance.

7. The rate is now 6 percent, though villagers can get up to 20 percent, and most reinvest the money in the village corporation (personal interviews undertaken in March 2006).

8. Data are based on my interview with the Party secretary in August 2006.

9. The ‘ten-star model family’ contest (shixingji wenminghu pingbi) first started in 1992. Each star is associated with certain welfare benefits, so losing a star means paying for some of the previously free supplies. The ten stars are the stars of communism, responsibility, self-sacrifice, knowledge, obeying the law, following the new culture, skills, thriftiness, kindness and filial obedience, and sanitation. Evaluation forms are first sent to the work units to which the villagers belong, and the leaders of the work units give a score to each of their employees. The forms are then collected and reviewed by each Party branch, and the Party also sends the head of each villager’s team to randomly inspect the families. The final results are submitted to the Labor Resource Office, which distributes welfare benefits to each person accordingly.

10. Examples of the clusters include the printing industry in Cangnan County, the valve industry in Ouhai District, the pen-producing industry in Longwan District, the shoe, garment and cigarette-lighter industry in the city of Wenzhou, and the low-voltage electrical equipment industry in Yueqing County, where Shangyuan is located. In fact, the two largest low-voltage electrical equipment
companies in China, Chint and Delixi, both started in Shangyuan, and both are private enterprises.

References


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