

## CSES Working Paper Series

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### Market Transition as Theories of the Middle Range

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# Market Transition as Theories of the Middle Range

## 1 Introduction

Theories of the middle-range are characteristically comprised of interrelated propositions close enough to data to be confirmed empirically. In sociology, their aim is to identify the “social mechanisms—that is, the social processes having designated consequences for designated parts of the social structure” (Merton 1968: 43). Such specialty theories provide a reliable and effective pathway for sociology to develop as a social science—a pathway more reliable, Merton argued, than Talcott Parsons’ singular focus on a more general theory. In the post–World War II era of expansive advance in the social sciences, sociology produced a rich plethora of middle-range theories that contributed to explaining the social order at the micro-level of small groups (Homans 1974) and the meso- and macro-level of institutions and organizations (Merton 1968).

This chapter acknowledges my intellectual debt to my close friend and colleague, Ivan Szelenyi (1983), whose seminal idea on the workings of markets in reforming state socialism—the idea that markets benefit direct producers—provided the key insight for my theory of market transition, which attempts to “specify the central processes in the shift from hierarchies to markets that involve fundamental changes in the sources of power, and in the structure of incentives and of opportunities” (Nee 1989: 666).

An emergent market economy enables entrepreneurs to manufacture products for exchange in markets, as opposed to meeting nonmarket production targets set by government administrators. Market transition theory argues that the replacement of bureaucratic allocation by market mechanisms involves a shift of power to entrepreneurs and direct producers. First, markets provide entrepreneurs and producers with a greater set of choices, enabling them to develop new means and modes for cooperation and exchange outside of state-controlled allocation. Second, marketization releases rewards based on a firm’s performance. Lastly, markets endogenously expand opportunities for entrepreneurs to detect and assess new opportunities for profit-making.

My research program on market transition turned to China for strategic research sites providing the opportunity to discover and confirm social mechanisms underlying transformative institutional change in real time. My first large-scale survey research project was in 1985 in

Fujian, a southeastern coastal province. This was followed by urban social surveys in the early 1990s in Shanghai and Guangzhou, and most recently by a twelve-year mixed-method field study in the Yangzi River Delta region involving four successive survey waves (2006, 2009, 2012 and 2016) with industrial entrepreneurs and private manufacturing firms. It was obvious to me that the rich canvass of multi-level social and institutional change taking place in China was on a scale as significant as the rise of modern rational capitalism in the West. I saw the opportunity to utilize the advances of modern social science to conduct a theory-driven empirical research program on institutional change.

Hypotheses derived from market transition theory predicted 1) a decline in the significance of political capital relative to market capital; 2) higher valuations in returns to human and cultural capital; and 3) emergent structures of opportunity through entrepreneurship and private enterprise.

The early empirical tests of market transition theory produced robust results consistent with predicted change in relative rewards for redistributive and market power. More importantly, the early results confirmed a social dynamic wherein the “expansion of markets opens up new opportunity structures or niches in which entrepreneurs thrive; their activities, in turn, drive further expansion of markets.” Scope conditions are critical and are specified in some detail. For example, “less market coordination and greater reliance on bureaucratic coordination will result in greater power of the class organized around redistribution. Therefore, in sectors and regions of the socialist economy where allocation and distribution continue to be based upon central decision, there will be little or no change in the processes determining stratification” (Nee 1989: 666). In other words, market transition theory’s hypothesis of a declining significance of political capital turned on the decisiveness of the shift to reliance on market exchange.

My early market transition research also identified an anomaly, *nouveau riche* entrepreneurial households where an adult member occupied a redistributive position in local government. “Might this new elite, according to Merton’s principle of cumulative advantage, increase its wealth at a faster rate” than other households? “Cadre-entrepreneurs are structurally located in networks that allow them to maximize benefits from both the public and private sectors of the socialist mixed economy....If partial reform prevails over the short run, as appears likely in China, this hybrid elite may grow in importance” (Nee 1991: 269). Just as William Julius Wilson’s (1978) theory of declining significance of race “does not imply that race is no

longer of any consequence in North America, market transition theory does not claim that cadre power vanishes once markets begin to coordinate economic activity in reforming state socialism.” Instead, market institutions incrementally undercut positional power based on redistribution as market exchange expands to integrate economic activity outside of the state-owned economy: “Cadres may continue to be powerful as state actors, but when social mobility is increasingly shaped by the dynamics of markets than by the redistributive power of the state, they have less influence on who gets ahead.”

In sum, market transition theory argued that as power—control over resources—shifts cumulatively from state control to markets, there will be a change in the distribution of rewards favoring economic actors who hold market power. Because direct producers retain a greater share of the economic surplus than in a planned economy, markets both empower producers and increase incentives for gains in productivity. State actors who in centrally planned economies allocate jobs, scarce resources, and opportunities for socioeconomic mobility must now compete with market-based agents and opportunities. For these reasons, the emergence of economic institutions of a market society—i.e., property rights, contracts, labor markets, capital markets, production markets—causes a decline in the significance of redistributive power even in the absence of fundamental change of the political order. In sectors of the economy where a decisive shift to markets has occurred, officials are less likely to retain an all-encompassing advantage from positional power in party organization and state agencies over nonstate economic actors (Nee 1996).

This chapter revisits my market transition research program, selectively drawing from a sequence of papers exploring different domains of institutional change. As Merton (1968: 65) observed, “theories of the middle range consolidate, not fragment, empirical findings.” In the following pages, I review a network of theories examining different dimensions and consequences of market transition. I start with the theory published in “Sleeping with the Enemy,” co-authored with Peng Lian, which seeks to explain decline in political commitment to the communist party and increasing risks of regime change. This middle-range theory was first presented at a panel organized by Ivan Szelenyi at a conference in New Orleans.

## **2 Sleeping with the Enemy**

Ever since Oscar Lange's model of market socialism integrating neoclassical price theory into economic planning, successive generations of socialist reformers have sought market solutions to inefficient allocation and shortage in state socialism. "Like alchemists bewitched with the challenge of turning lead into gold, these reformers dreamt of harnessing the power of the market to remedy the failures of the plan. The goal of all reformers has been to stimulate economic growth by combining plan and market, and above all, to safeguard the institutional foundation of state socialism even while introducing markets. To accomplish this task, communist rulers must rely on party officials and economic bureaucrats to implement the reform program, monitor the market activities of citizens, and enforce regulations" (Nee and Lian 1994: 263).

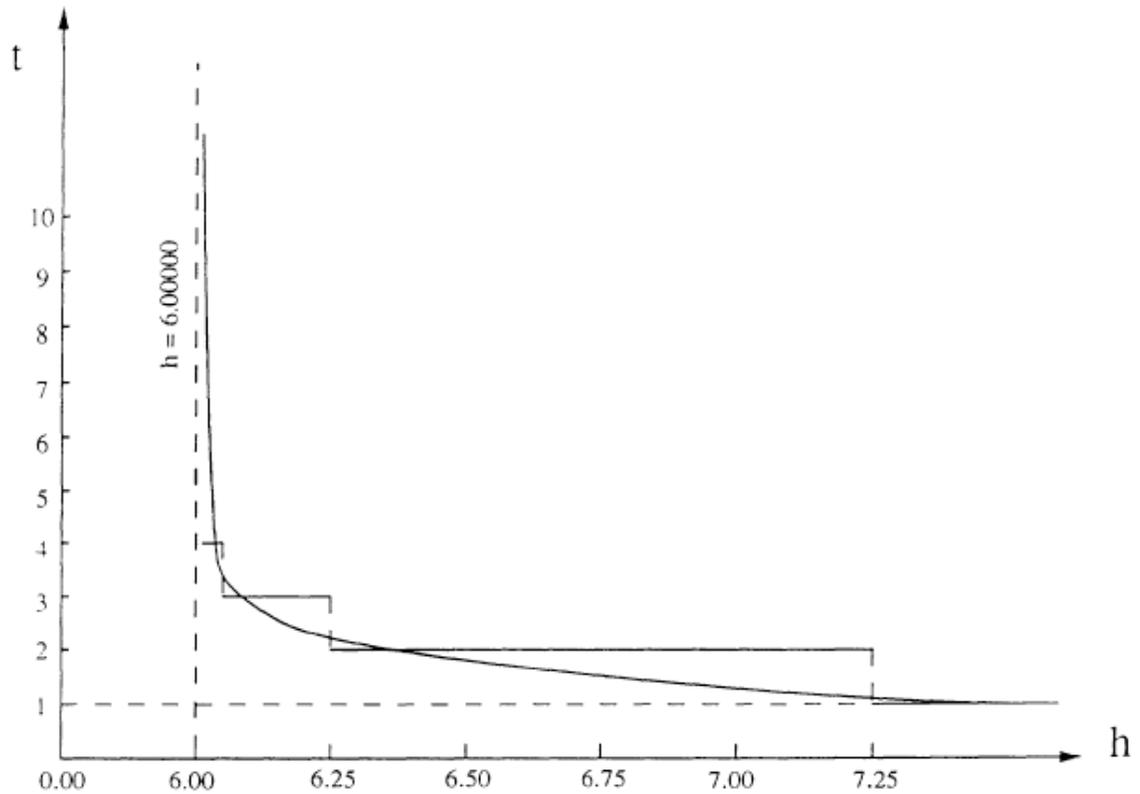
An unintended consequence of economic reforms of the 1980s—whether in Eastern Europe, China, or the Soviet Union—was cumulative erosion of the legitimacy and power of established communist parties. First, economic reforms generated a rapid escalation in transaction costs arising from the conflicting institutional logics of state controls and free markets which increased uncertainties of enforcement of the informal and formal rules of the game. Second, market-oriented reforms increased the payoff for opportunism in transactions across the boundaries of the planned economy and emerging free markets. As markets expanded outside of the state-controlled economy, not only were non-state economic actors freer to pursue opportunities for profit and gain, but so were political actors with positional power in state agencies. "As a result, the shift to markets – domestic or international – increases the extent of opportunism among agents of the state" (Nee and Lian 1994: 262). Szelenyi and Manchin's (1987) "commodification of bureaucratic privileges" identified the problem in Hungary. Similarly in China, "expanding markets give rise to a hybrid stratum of cadre-entrepreneurs who use positional power—political capital—to gain advantages in the marketplace" (Nee and Lian 1994: 264).

The 1970s and 1980s were a period of remarkable technological progress and expansion of dynamic capitalism across the global economy. Perception of a rapidly widening gap in technological and economic performance between centrally planned economies and advanced market economies eroded confidence in the efficacy of central planning, heightening elite concern over internal trends toward economic and technological stagnation and inertia. The rapid economic advances of market economies prompted communist elites to initiate market-oriented economic reforms in Eastern Europe, the former Soviet Union, China and Vietnam. Those

reforms were far from uniformly successful. Szelenyi (1989) portrayed the deterioration in economic performance starting in Hungary of the 1960s when reform efforts floundered in a failed attempt to shift from extensive growth reliant on labor inputs to intensive knowledge-based economic growth.

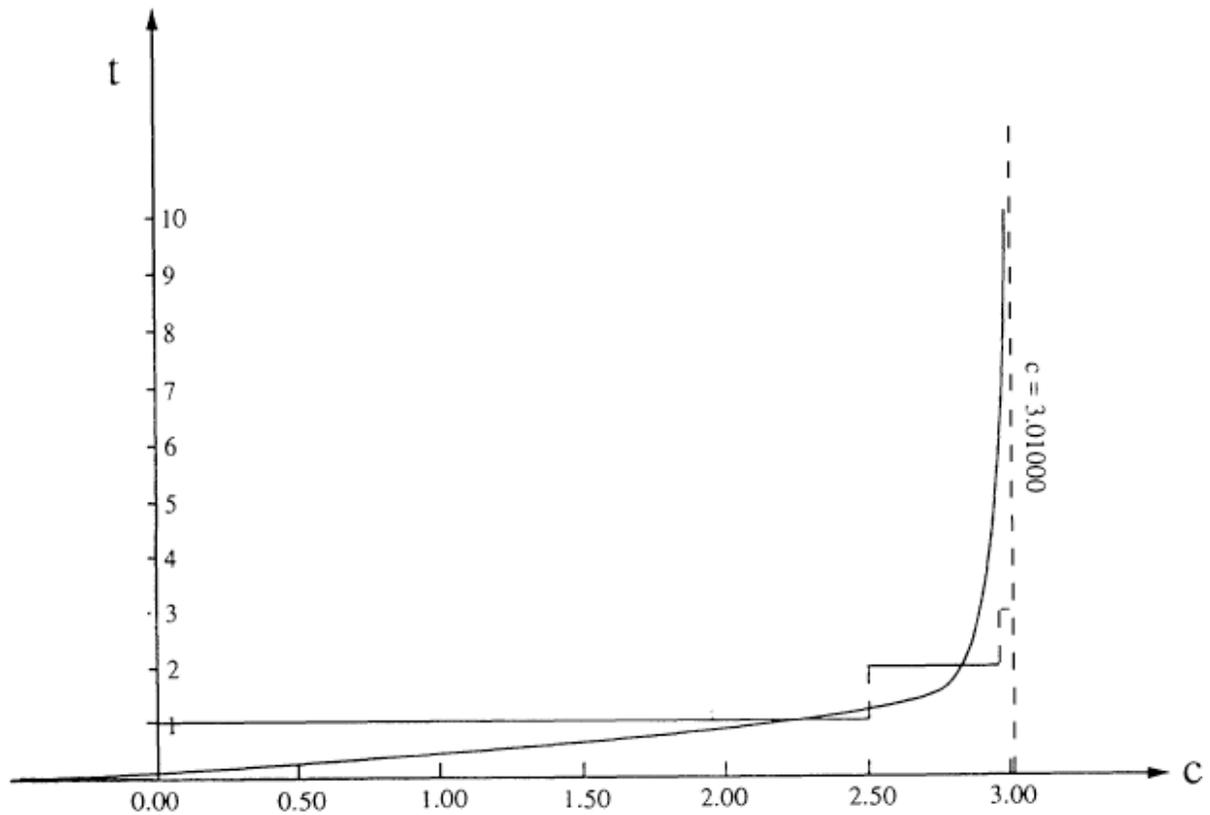
“Sleeping with the Enemy” relied on computer simulation to explore the social dynamics of declining political commitment to the party and increasing risk of regime change in reforming state socialism. Agents in the model face binary choices, commitment to the party’s cause or defection to opportunism in each period  $t$  ( $t = 1, 2, \dots$ ). Over time, increase in the number of opportunists reduces the payoff to commitment to ideology and values of the communist party. The theory addresses why decline in political commitment need not lead to collapse and regime change if the party organization is successful in lowering the payoff to opportunism and malfeasance. If, however, a communist party is unable to check the payoff to opportunism, the theorem points to cumulative deterioration as more and more of the party elite become opportunists and defect. In other words, the monitoring capacity of the party organization is what determines the stability of a communist state in the face of increasing market temptations.

Computer simulation confirmed a negative relationship between market temptation and the number of periods that the party can survive. In Figure 1, for example, when the payoff for opportunism,  $h$ , is larger than 7.24, the party can survive for only one period (row 1); but when  $h$  is lower than 6, the party can survive indefinitely (row 8). When market temptation increases 20.7 percent from 6.02 to 7.25, the social dynamic of declining commitment to the party accelerates and the party can survive for only one period instead of four as before. Hence, a sufficiently high payoff for opportunism will undermine a communist regime. But if the party leaders are successful in reducing market temptation—for example, in a protracted and thoroughgoing anti-corruption campaign—the party can survive indefinitely.



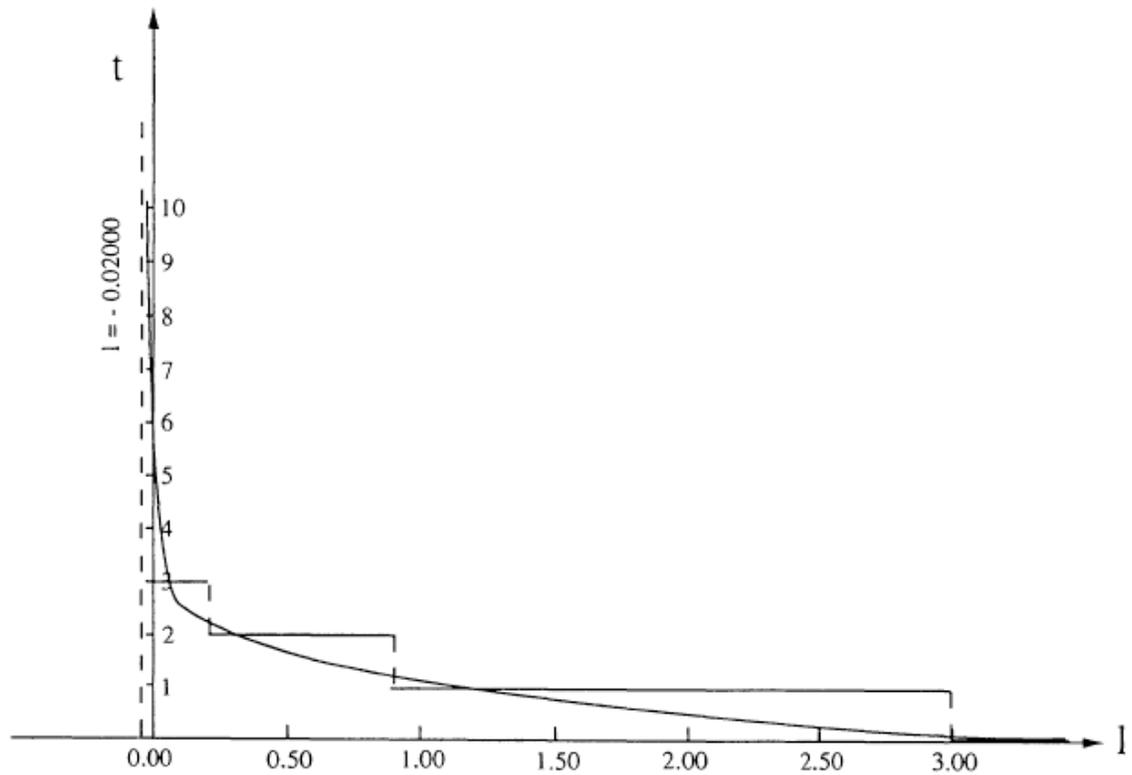
**Figure 1.** The relationship between  $h$  and  $t$  when  $c = 3$ ,  $l = 0$  and  $f(b)$  is uniform. (source: Nee and Lian 1994).

A second computer simulation explored the effect of economic performance,  $c$ , on the survival of the communist party. Figure 2 shows that the lower the economic performance, the higher the risks of regime change. If economic performance is zero, the party collapses and regime change follows. But when economic growth is sustained at a high level, say when  $c$  is higher than 3, the party can survive indefinitely.



**Figure 2.** The relationship between  $c$  and  $t$  when  $h = 6.02$ ,  $l = 0$  and  $f(b)$  is uniform. (source: Nee and Lian 1994).

A third computer simulation explored the relationship between punishment for opportunism and the survival of the communist party. Figure 3 shows that when the average payoff for opportunism is higher than 3, the party will collapse almost instantaneously, but when it is lower than  $-0.02$ , the party can survive indefinitely. Hence, there is a negative relationship between the punishment of opportunistic behavior and the survivability of the communist party.



**Figure 3.** The relationship between  $l$  and  $t$  when  $h = 6.02$ ,  $c = 3$  and  $f(b)$  is uniform. (source: Nee and Lian 1994).

In sum, computer simulation exploring the network effects of market temptation shows that if economic reforms lead to the weakening of the communist party's capacity to monitor opportunism of party members, the social risk of regime change increases, to the tipping points causing regime change, as in the fall of the Soviet Union. Shrewdly, China's party leaders have consistently recognized this risk. (Xi Jinping's consolidation of party power by combining commitment to pursuing technological and economic growth with a robust crackdown on corruption is the latest manifestation of this.)

### 3 The Endogenous Dynamics of Institutional Change

How do initially illegitimate organizational and institutional innovations arise in spite of legal prohibitions and accompanying sanctions? Why would economic actors assume the cost and risk of participation in the social construction of economic institutions of capitalism if they can instead "free ride" on the effort of others? Why would any individual take the risk of being a first

mover, when, the harsh penalties imposed on market temptations in mass campaigns of Great Leap Forward and Cultural Revolution against “sprouts of capitalism” and “capitalist-roaders” remained vivid reminders of the risks of entrepreneurial action? These are core puzzles that a theory of institutional change giving rise to private enterprise and economic institutions of capitalism must attempt to explain.

In *Capitalism from Below* (2012), co-authored with Sonja Opper, I discussed in detail the “bottom-up” emergence of economic institutions of capitalism, as evidenced in our large-scale mixed-method field study involving 700 industrial entrepreneurs and private manufacturing firms in the Yangzi River Delta region. Not surprisingly, given the Yangzi River Delta’s long history as a robust commercial center, a private enterprise economy had rapidly developed “from the bottom up” in this region, along with the privatization of state-owned and collective enterprises. Networks and norms furnished the social cement for dynamically evolving informal and formal economic institutions. We used a Schelling-type model to identify opposition norms as the social mechanisms of endogenous institutional change. Karl Schelling’s seminal idea that utilities shaping individual behavior depend on the observable social behavior of others provided the starting point for theorizing. From a small cluster of dissident entrepreneurs who started up illegal and semi-legal businesses in rural townships, we show that network externalities of an expanding private enterprise economy quickly became an irresistible economic force. We then extended our bottom-up causal narrative of social construction of economic institutions of capitalism in a theory of endogenous institutional change. The theory proposed interrelated propositions focusing on the interplay of three social mechanisms. First, *large utility gains interacting with network externalities increase the payoff from collective action as deviance assumes a self-reinforcing social dynamic*. If the utility gain of institutional innovations fails to generate network externalities, then entrepreneurs of private businesses will be confined to private orders with limited scope for growth. But in communities where entrepreneurial profit attracts neighbors’ attention, the emergence of a stable cluster of deviators further amplifies the gains of coordination and pulls even more neighbors into the fold in a self-reinforcing “tipping” dynamic (Nee and Opper, 2012: 24–32). Others who may not have been willing to take the initial step of risky experimentation will nonetheless join the local bandwagon begun by their more entrepreneurial neighbors as collective action gains self-reinforcing momentum.

Yet, regardless of how individual incentives are structured, deviation remains unlikely

to survive in the long term unless it is eventually reinforced by accommodative action from political actors. *The greater the utility gain and larger the network externalities of bottom up institutional innovations, the more likely it is that political actors will accommodate endogenous institutional change.* Where deviation is widespread, such political change can be a matter of practical necessity due to the costs associated with effective enforcement of laws that are ignored or willfully disobeyed by large swaths of the population. *If utility gain and network externalities give rise to self-reinforcing “tipping” dynamics, the cost of enforcement increases to prohibitive levels for state actors.*

Figure 4 clarifies how tipping-point dynamics play out within particular clusters. The initial state of universal compliance in agent  $i$ 's neighborhood is broken by a single neighbor  $j_1$  who deviates and suffers sanctions. While this example discourages nearby agents from repeating  $j_1$ 's mistake, it is soon met with counterexamples of unsanctioned deviation in adjacent neighborhoods. Even as the example of  $j_1$ 's failure looms, cases of deviation without penalty can continue to mount in the local neighborhood. As agents update their calculus of costs and benefits, the number of unsanctioned deviators makes it clear that  $j_1$ 's unfortunate example was an exception to the general rule. Thus, even previously cautious agents eventually follow their neighbors, reinforcing a ripple effect that spreads to other adjacent neighborhoods. When sanctioning regimes are especially persistent, of course, examples of deviators being punished will dominate, and local tipping points may never be reached.

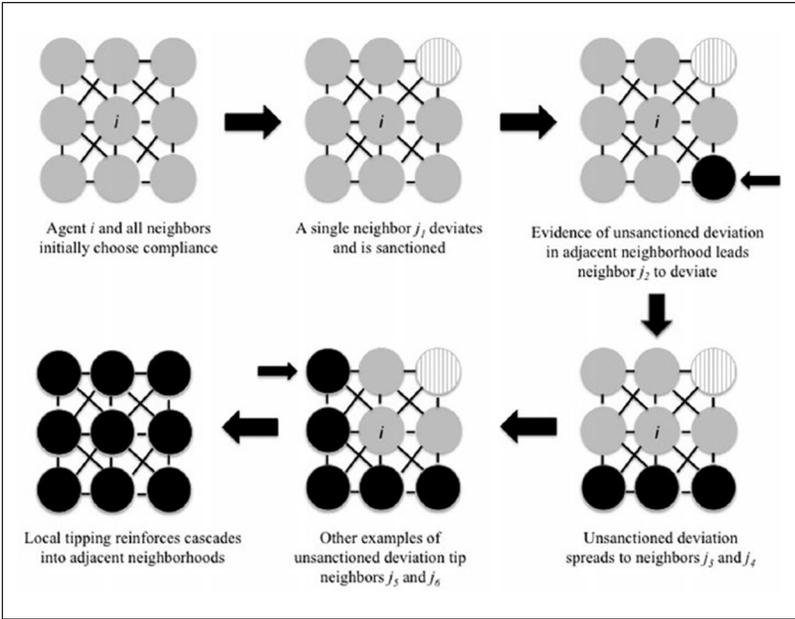


Figure 4. Reaching local tipping points (source: DellaPosta, Nee and Oppen 2017)

**4 Emergence of Modern Rational Capitalism**

In departures from state socialism, multiple pathways of market transition have all led to hybrid forms of politicized capitalism in which the state sets the regulatory framework and remains directly involved in a wide range of economic transactions (Nee and Oppen 2007, 2010). A defining feature of the politicized forms of capitalism is the persistent overlap of political and economic markets and the lack of a clearly defined boundary between the state and the firm (Parish and Michelson 1996). Institutions and cultural beliefs associated with rational capitalism have been long established in the West. But notwithstanding the widespread diffusion of these institutionalized routines and rational myths of the Western world (Meyer 2009), rational capitalism has yet to displace a pervasive reliance on state intervention in economic life in former state socialist economies.

In the private enterprise economy, traditional, hybrid, and modern corporate forms of rational capitalism coexist in a regional ecology of organizational forms.

*Traditional:* Historically, merchant households and family-owned craft workshops flourished in urban centers in the Yangzi River Delta region. In the traditional form of merchant capitalism, patrimonial authority was the organizing principle of family businesses. Kinship ties provided the basis for trust and cooperation. Today, private firms in the Yangzi River Delta

region are listed predominantly as limited liability companies (LLCs), but the majority of these companies are owned by the firms' founders and, especially in the formative years, were organized as family businesses.

*Hybrid:* Hybrid organizational forms emerged in response to pressures for state-owned and collective enterprises to adapt to market forces and competition (Nee 1992; Walder 1995). In time, and despite state-crafted efforts to implement economic reforms, state-owned and collective enterprises were massively loss-making under competitive pressure from private firms. Though many firms were shuttered by local governments, the privatization of local, state-owned firms gained momentum in the late 1990s. A common practice in the privatization of loss-making, state-owned firms was for local governments to pass ownership to a factory director in a negotiated transaction, which obligated the new owner to retain the firm's employees. This meant that the new CEO of the privatized firm relied on long-standing personal ties in the founding and development of the business.

Hybrids encompass not only privatized firms but also traditional partnerships reinvented as a means for business partners to start up private firms in more capital-demanding manufacturing and technology-enabled industrial sectors. As with family businesses, the reinvention of traditional business partnerships relied on strong personal ties for trust and cooperation, but such ties were typically based on nonkin relationships. In an institutional environment where state-owned banks discriminated against private enterprise, partnerships allowed professionals to pool their capital to found start-up firms, often in technology-intensive industrial sectors with higher costs of entry. In both the reinvented partnership and privatized, state-owned firms, founders shared a common reliance on the strength of nonkin personal ties in managing their firms.

*Rational Capitalist:* In the modern corporate form, "a formal, rationally organized social structure involves clearly defined patterns of activity in which, ideally, every series of actions is functionally related to the purposes of the organization." (Merton 1940:560). Accordingly, in rational capitalism as it emerged in the West, CEOs of corporations rely on neither kinship nor network closure in managing their firms. Rather, they are likely to seek help from alters on the basis of functional role, know-how, and capability.

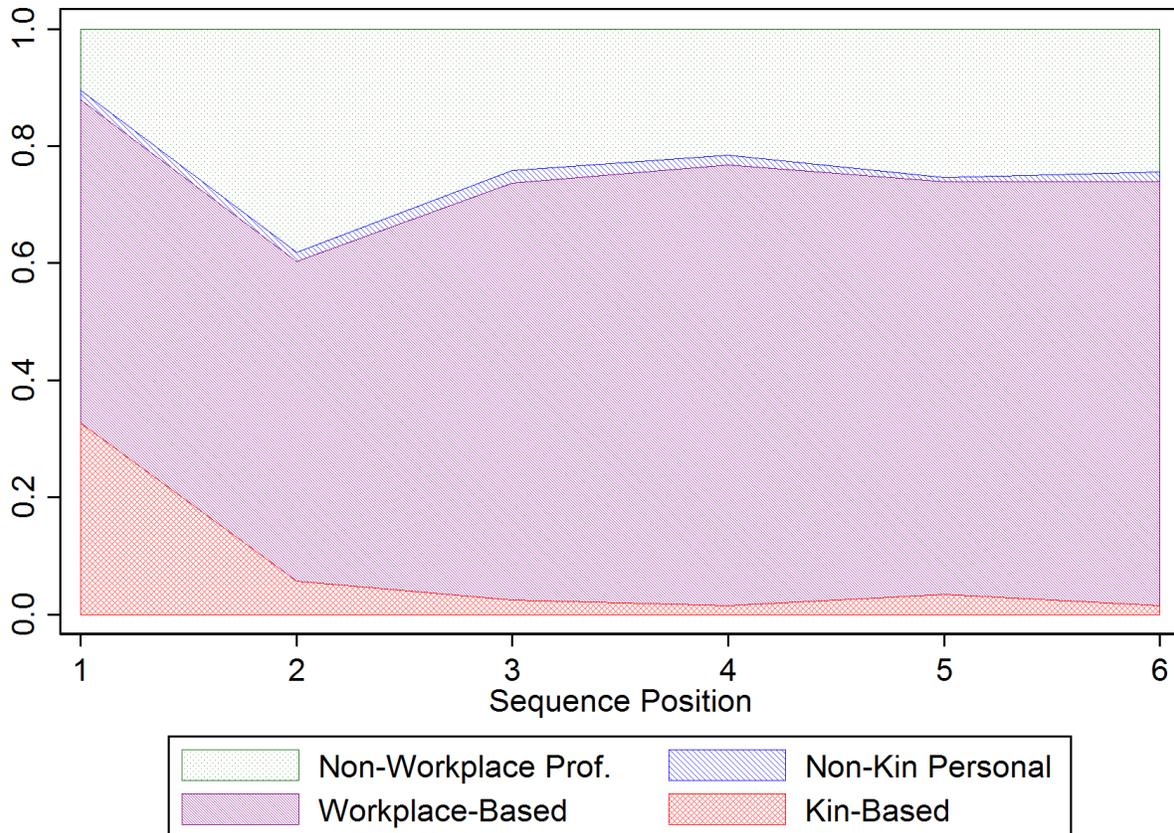
As part of the state-crafted economic reform, the Company Law enacted in 1994 codified organizational routines and myths of the modern corporation as the basis for the legal form of

LLCs and public corporations. Guthrie's (1999) study of state-owned enterprises shows that rational myths codified in the Company Law did in fact guide the reform of state-owned enterprises in Shanghai's industrial and commercial economy, establishing trends in the region. In the next phase of reform, entrepreneurs of private manufacturing firms joined the movement to incorporate under the Company Law. These entrepreneurs followed the listed public corporations in mimicking rational myths and cultural beliefs of modern corporations and defining the role of the CEO as a corporate leader in order to gain legitimacy for private enterprise. Numerous channels of information expedited the diffusion of rational myths and organizational practices of the modern American corporation. Social learning, legitimacy seeking, and mimicking rational capitalism quickened the process of diffusion of rationalized organizational practices and routines (Nee and Opper 2012; Tsui, Zhang, and Chen 2017).

An underlying trend in market transition—accompanying the expansion of markets for innovation and reliance on innovation by firms—is a parallel shift toward openness in entrepreneurs' networks. When describing networks, closure refers to the degree to which key contacts tend to know one another. Within closed networks, which are dense networks of overlapping mutual relations, entrepreneurs can benefit from advice, information, and material assistance by having embedded, strong ties with trusted alters (e.g., Coleman 1988; Uzzi 1996). In contrast, network openness refers to the absence of dense webs of mutual relationships among one's key contacts and the presence of gaps in the network structure.

Entrepreneurs who build their networks heavily around professional relationships predominantly rely on colleagues (whether inside or outside the firm) for advice, information, and material assistance. A dominance of such professional ties in the entrepreneur's network signals an openness to people outside his or her immediate social orbit and is contingent on functional role and human capital (training, experience, knowledge, and expertise). In contrast, an entrepreneurial network dominated by kin and close personal relations (e.g., classmates and neighbors) is closed in the sense that ties reflect social proximity rather than human capital and specialized knowledge or expertise. In an institutional environment where property rights and legal recourse are unreliable, reliance on kinship and friendship often brings specific benefits of higher trust and solidarity (Peng 2004). Yet in a market economy in which innovative activity is important for business success, closed kinship and nonkin networks can seal off access to novel

ideas, entrepreneurial opportunities, and useful tacit knowledge that is available to competitors with open networks.

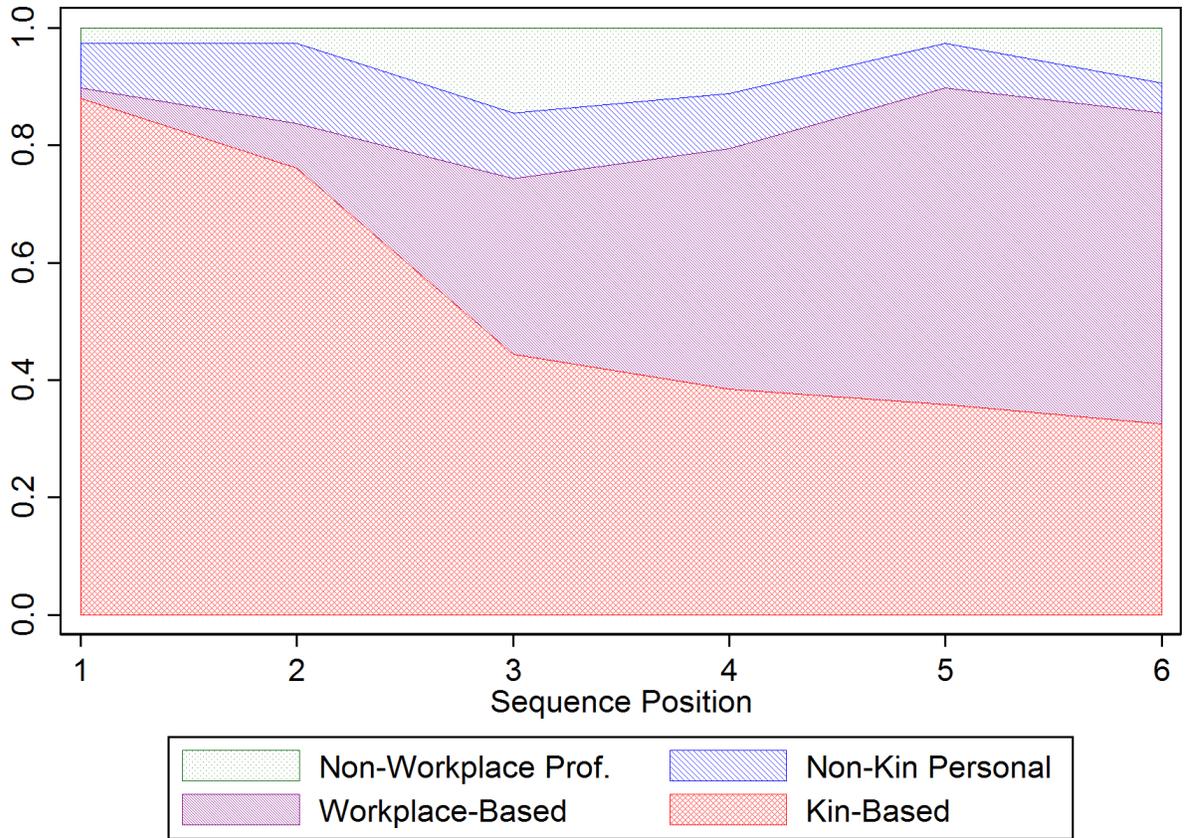


**Figure 5:** Network sequence trajectories of rational capitalist firms. The types of ties relied upon during chronologically ordered key events are distinguished by color (see legend). The y axis displays cumulative density. (Source: Nee, Liu and DellaPosta 2017)

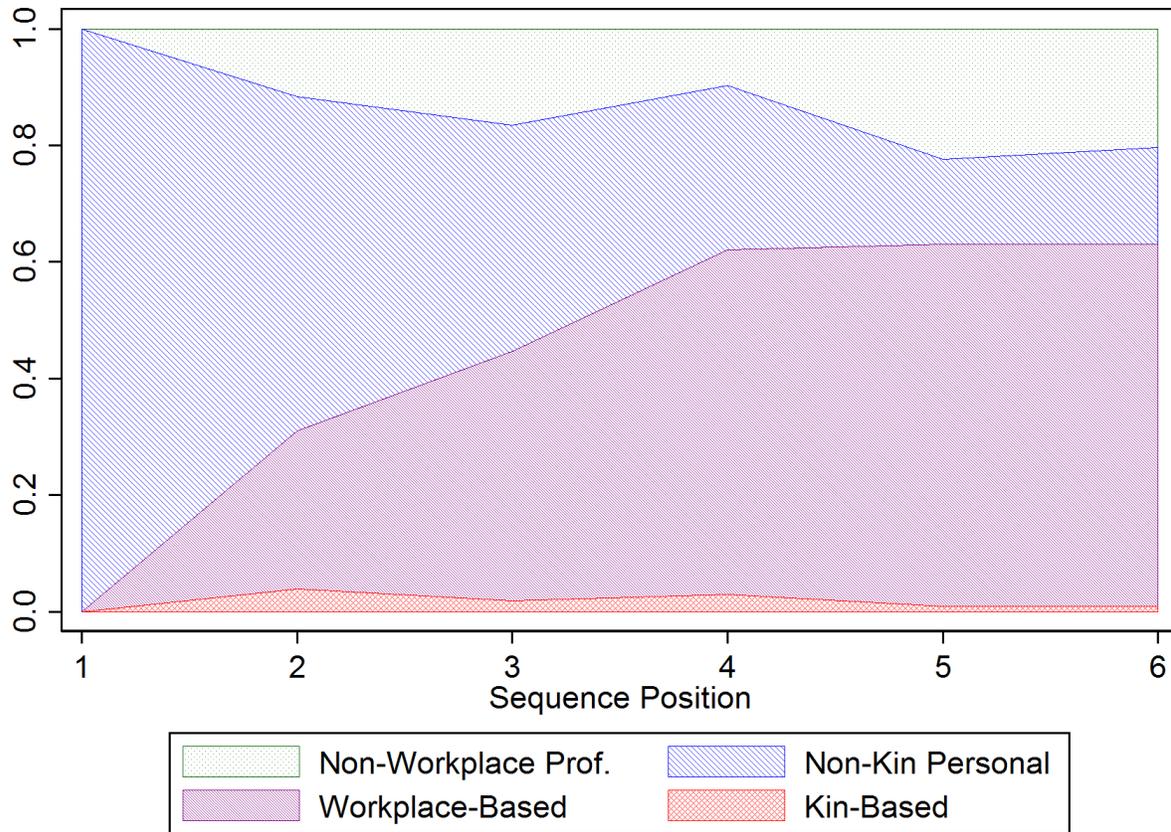
The three clusters map closely onto the network governance structures previously described. Figures 5, 6, and 7 track the relative prevalence of the different types of network ties at different life course stages for the firms in each cluster using sequence analysis of network data collected in the 2012 survey of CEOs of 700 manufacturing firms in the Yangzi delta study of entrepreneurs and private enterprises (Nee et al. 2017). Figure 5 shows that entrepreneurs in the first and largest cluster ( $N = 379$ ) relied heavily on ties with professional colleagues at all observed stages. These are the rational capitalist firms that have relied consistently on human capital-intensive governance structures. Figure 6 shows that entrepreneurs in the second cluster

( $N = 163$ ) relied heavily on kin-based ties for early events in their firm's life course before gradually shifting toward workplace-based ties in later stages. These are the traditional kin-based firms. Congruently, Figure 7 shows that entrepreneurs in the third cluster ( $N = 133$ ) typically relied on nonkin personal ties for aid with early events in their firm's life course before increasingly drawing on workplace-based ties for later events. These are the hybrid nonkin partnership firms.

The visualizations suggest that traditional kin-based firms and hybrid nonkin partnerships gradually acquired the network profile that is typical of the modern capitalist firm through the replacement of personalized social capital with professional ties. The visualizations indirectly suggest shifts in the institutional environment that enabled and motivated the emergence of rational capitalism that is evident in convergent network governance. Clearly, the network governance of firms in the three clusters is trending toward more openness in CEOs' networks. Thus, large differences in network governance for early events in a firm's life course appear to shrink with time. In other words, the organizational dynamics of competition and selection in China's market economy appear to reinforce "blending" more than "segregating" processes (Nelson and Winter 1982; Hannan and Freeman 1989). Network governance type tells us much about the types of contacts relied upon in early events but less so for later events because entrepreneurs across all three clusters increasingly rely on professional ties rather than kin or nonkin social capital in later stages of a firm's development. In part, this reflects the well-known shift to reliance on professional managers by founders of family firms as their businesses mature.



**Figure 6:** Network sequence trajectories of traditional kin-based firms. The types of ties relied upon during chronologically ordered key events are distinguished by color (see legend). The y axis displays cumulative density. (Source: Nee, Liu and DellaPosta 2017)



**Figure 7:** Network sequence trajectories of hybrid nonkin firms. The types of ties relied upon during chronologically ordered key events are distinguished by color (see legend). The y axis displays cumulative density. (Source: Nee, Liu and DellaPosta 2017)

## 5 Political Capital in a Market Economy

Market transition theory predicts that *“The more competitive markets replace state allocation of scarce resources and services, the less the value of political capital.”*

Analysis of data from a 2002 survey of 2,400 Chinese firms—state-owned, collective, private and foreign— found robust evidence confirming this prediction. “Political capital, as a fungible form of capital, has greatest value in those institutional domains where government restricts economic activity. The stronger the government’s commitment to introduce competitive markets in an industrial and commercial sector, the more the value of political capital will decline in that sector” (Nee and Opper 2010: 2109).

Markets for government contracts can be expected to be an institutional domain where political connections matter, as indeed in all market economies. In contrast, product markets are organized by a status order of perceived quality of the product. In the Chinese context of state-owned banks, clearly credit markets are an intermediate domain where political ties to government can provide real advantages in securing a loan on favorable terms.

As predicted by market transition theory's hypotheses on political capital, in the 2002 survey the advantages of political connections were highest in institutional domains of state-dominated credit markets and market for government contracts, while in contrast, there is no positive payoff for political capital in competitive product markets. Surprisingly, there was no evidence confirming a systematic advantage for politically connected firms in political markets.

The declining-significance-of-political-capital hypothesis found further support in analysis of data from the subsequent surveys of 700 private manufacturing firms in the Yangzi River delta region (Nee and Oppen 2012). In this analysis, we addressed the question of whether CEOs of private firms who invested in political connections enjoy long-term competitive advantages reflected in the growth of their firm size and the firm's returns on assets. Not surprisingly, positional power stemming from party membership and cadre status was not associated with larger firm size nor with higher returns on assets. But the more significant result came from asking whether cadre-entrepreneurs who secured ownership of their firm through privatization of a state-owned firm enjoyed long-term advantages in a market economy. The surprising finding was that "By 2008, cadre entrepreneurs operating privatized businesses have lost all of their initial advantages...Our results do not indicate that political connections increase chances for a company to thrive in China's market economy. While political connections are fungible in regulatory markets, entrepreneurs with political capital do not differ from others with respect to entrepreneurial success. Empirically, there is no evidence suggesting that the movement of bottom-up entrepreneurs in the Yangzi delta region depends on positional advantages and social privileges held by company founders" (Nee and Oppen 2012: 249).

## **6 Conclusion**

Theories of the middle-range are not derived from a general theory, but they also are not mere empirical generalizations. They are more context bound and less general than theories in the physical sciences. Comprised of interrelated propositions with specified scope conditions, they

are close enough to data so that hypotheses derived from the specialty theory are testable. In such theory-driven empirical research the aim is as Merton states to identify the social mechanisms and confirm their consequences for designated parts of the social structure, rather than the descriptive project of case studies and area studies.

A notable parallel is seen in the similarities between Thomas's and Szelenyi's ideas in the middle-range theorizing by Merton and Nee. The theories of self-fulfilling prophecy and market transition both acknowledge influence of a seminal idea as the starting point for analytically identifying social mechanisms and their designated consequences on designated parts of social structures. The theories self-fulfilling prophecy and market transition are both close enough to data to derive testable hypotheses. Both theories of the middle-range identify general mechanisms, but are not derived from a general theory of the social system nor are they descriptive histories of particular case studies.

Confirmation of a middle-range theory is often messy and findings are rarely robust as in the physical science. Ironically even when confirmed, middle range theories are easily forgotten or subsumed. Few are formalized as theorems, and even fewer have identified social mechanisms with law-like properties as in the physical sciences. Human beings are reflexive actors obviously and adapt through social learning to varying definitions of the situation. As Duncan Watts (2011: 262), who trained in physics put it, "The social world, in other words, is far messier than the physical world, and the more we learn about it, the messier it is likely to seem. The result is that we will probably never have a science of sociology that will resemble physics. But that's OK."

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