

Short-term Pain, Long-term Stain: Political Trust after Privatization of State-owned Enterprises in China

Abstract

Mass opposition to governments implementing economic liberalization reforms remains a key puzzle in the political economy of transitions. This article investigates this puzzle by examining the political consequences of China's large-scale privatization of state-owned enterprises in the late 1990s, which displaced over forty million workers while enriching politically connected elites. Combining firm-level layoff data with nationally representative surveys, we find that citizens in counties experiencing greater privatization layoffs exhibit persistently lower political trust and more contentious behavior more than a decade after the peak of privatization. This trust deficit does not dissipate even among laid-off workers whose material conditions substantially improved during China's subsequent economic boom. Further analyses show that elite capture, social contract violation, and sociotropic anxiety jointly sustained this distrust. Short-term pain from economic reform can leave a lasting stain on political trust even when the promised growth materializes.

Introduction

Since the 1970s, market-oriented reforms have swept across Europe, Latin America, the Middle East, and Asia ([Williamson 2009](#); [Denisova et al. 2009](#); [Bai, Lu and Tao 2009](#)). Though initially welcomed, these reforms soon encountered mass opposition with significant political implications ([Roberts 2008](#)). In Latin America, discontent with marketization induced the rise of leftist political forces ([Levitsky and Roberts 2011](#)); while in former socialist countries, distrust of market reformers has contributed to the power centralization of populist leaders such as Putin and Lukashenko ([Guriev 2021](#)).

The mass opposition seems puzzling since the classic literature on the political economy of transitions suggests that, despite short-term economic pain and political backlash, citizens would turn to support the government over time as long as market-oriented reforms lead to long-term economic recovery and growth ([Przeworski 1991](#); [Rodrik 1995](#); [Stokes 1996](#)). The puzzle, however, is why such support never emerges: public discontent with economic liberalization is so widespread and enduring in transition economies ([Arce and Bellinger 2007](#); [Kurtz 2004](#); [Simmons 2016](#); [Denisova, Eller and Zhuravskaya 2010](#); [Denisova et al. 2009](#)). [Denisova et al. \(2012, 44\)](#) puts it frankly: “Studies of mass support for economic reform reveal a simple conclusion: everyone hates privatization.” Why the public reviles governments that implement economically efficient liberalization reforms is not well understood.

In this article, we tackle this puzzle by focusing on the political consequences of privatization, an important form of economic liberalization.¹ We argue that even when privatization delivers macroeconomic efficiency gains and high growth, it can still hurt regime legitimacy. We propose a theoretical framework that underscores four interrelated mechanisms through which privatization layoffs can affect political attitudes and behavior: (i) economic hardships: significant economic losses for laid-off workers; (ii) elite capture: reform processes are often non-transparent and corrupt, thereby overwhelmingly benefiting a few politically connected elites and exacerbating perceptions of governmental malfeasance and inequality; (iii) social contract violation: the erosion of a longstanding social contract that guarantees a high social

¹ According to a World Bank report, privatization reforms in 120 developing countries from 1990 to 2003 involved nearly 8,000 transactions and raised \$410 billion ([Kikeri and Kolo 2005](#)).

status of workers conferred by state employment; and (iv) sociotropic concerns: the spillover of economic and social anxiety to the affected community. Our framework not only incorporates existing insights that privatization-induced economic hardships are an important source of grievances, but also predicts that the grievances cannot be easily mitigated by simply compensating economic losers, as the *process* of privatization itself invokes discontent that undermines regime legitimacy.

We test the theoretical framework using one of the most striking cases of privatization in history: China's privatization of state-owned enterprises (SOEs) in the late 1990s, which laid off over 40 million SOE workers in the following decade. The Chinese case is especially interesting since its privatization reform is widely believed to have generated high macroeconomic growth (Xu 2011; Roland 2002; Weber 2021). This contrasts with macroeconomic recessions in other transition economies (Guriev and Zhuravskaya 2009). However, this is not to say that the privatization reform itself benefited most citizens. Instead, politically connected elites acquired massive state assets at undervalued prices, while ordinary SOE workers and their communities bore the costs. This distributional inequality between a small class of winners and a large class of relative losers lies at the heart of the persistent trust deficit we document. Moreover, precisely because of economic growth, the case of China affords us a rare opportunity to test how privatization affected long-term political attitudes and behavior in a setting where at least some economic losers have been materially compensated.

Empirically, our analysis leverages a rich county-level dataset documenting layoffs during the privatization process and links these data to nationally representative survey measures of political trust and contentious behavior. As layoffs are not randomly assigned, we adopt a shift-share (Bartik) instrumental variable strategy (Baccini and Weymouth 2021) that exploits national layoff shocks weighted by the pre-privatization county-level share of SOE employment. This identification strategy allows us to isolate the causal impact of privatization. Our findings reveal that citizens in counties with higher intensity of privatization layoffs exhibited significantly lower trust in local officials, greater tolerance for public demonstrations and criticism of the ruling Chinese Communist Party (CCP), and a higher propensity to engage in protest behavior.

Having established the causal link between privatization-induced layoffs and political distrust, we investigate the mechanisms highlighted in our theoretical framework. We find supportive evidence for each of them. Regarding economic hardships, we find that laid-off workers continued to experience substantially worse economic conditions even two decades after the peak of privatization. More notably, in contrast to the conventional wisdom, attaining a substantially high income during the post-privatization growth era does not mitigate the political distrust associated with layoffs. For the mechanisms of elite capture and social contract violation, we find that laid-off workers were more likely to view government corruption and inequality as severe social problems, and to express dissatisfaction with their own and their families' social status; these beliefs also play a mediating role in shaping their political trust. We also find evidence consistent with the sociotropic mechanism: greater local layoff intensity was associated with lower political trust among non-laid-off citizens. We further show that, although privatization contributes to significant economic growth, it nevertheless reduced public goods provision, much of which had been provided by SOEs prior to privatization. Taken together, these mechanisms help explain why distrust persists long after China's economically successful privatization.

This study contributes to several strands of the literature. The first is the literature on political responses to economic shocks. Prior work in established democracies shows that negative economic shocks—primarily job loss—make voters support more expansive social policies and redistribution (Margalit 2013), decrease turnout (Hall, Yoder and Karandikar 2021), punish incumbents (Margalit 2019), and erode trust in political institutions (Algan et al. 2017; Guiso et al. 2017). These effects are often interpreted as transient and driven by material self-interest. Yet, recent studies suggest that when economic shocks threaten the identities and status of affected groups—such as US deindustrialization that has bolstered racialized political responses (Baccini and Weymouth 2021)—the resulting political consequences can be more enduring. By focusing on the long-term political trust deficit stemming from economic privatization, we underscore that even successful economic reforms in weakly institutionalized contexts may carry political costs that persist long after the initial economic shock and cannot be easily mitigated by compensating losers with material benefits. This insight is corroborated by Zhu, Manion

and Rothschild (2025), who find that even when governments actively attempt to correct governance failures, citizen trust proves difficult to fully restore, suggesting that the mechanisms linking institutional betrayal to distrust are structurally hard to reverse.

The study also engages with an emerging literature on the political consequences of privatization in authoritarian contexts. Existing studies show how privatization in regimes like Pinochet's Chile (Aldunate et al. 2020; González et al. 2020), Mexico (Greene 2007), and Nazi Germany (Bel 2010) served to consolidate elite power and resource sharing. In China, research has shown that officials who sold SOE assets at a discount were later shielded by top leaders during anti-corruption campaigns (Ru and Zou 2022). Our analysis, by providing the first quantitative and systematic evidence that privatization reduces mass political trust and increases contentious behavior, extends these insights beyond spoils sharing among elites to encompass the responses of ordinary citizens to privatization.

Finally, our work contributes to the literature on the political economy of development in China. Pioneering studies on the political fallout from China's privatization were mainly conducted when privatization was still ongoing (e.g., Chen 2006, 2003; Hurst and O'Brien 2002; Chen 2008), whereas our study demonstrates that, even as overall economic performance improved, post-privatization citizens continued to blame the government for pursuing unfair policies captured by elites and for undermining their social identity. Our findings also contribute to a growing literature on the legacies of socialist institutions on contemporary political behavior (Xu, Jiang and Meng 2026; Pop-Eleches and Tucker 2017; Simpser, Slater and Wittenberg 2018; Frye 2010; Chen and Xu 2025).

Trust Deficit from Privatization

Economic liberalization—particularly through privatization—has been widely promoted for boosting economic efficiency and growth (e.g., Estrin et al. 2009). Earlier studies show that politicians often promised their citizens that things would have to get temporarily worse before they got better to acquire public support for economic reforms (Stokes 1996; Przeworski 1991). However, subsequent studies of mass support for economic reform reveal a clear pattern: Everyone hates privatization (Denisova et al. 2012, 44). A common explanation for the widespread

opposition to liberalization reforms—and to the governments that implement them—is that the reforms often fail to deliver the promised economic boom (Roberts 2008). However, this simple explanation fails to explain why opposition remains widespread even in many countries that saw significant economic revival and growth following transitions. What is often overlooked is that economic transformations often come with profound distributional conflicts. For example, U.S. deindustrialization in the past several decades coincided with rapid growth in the technology and financial sectors, generating large gains in these sectors while imposing concentrated losses on manufacturing workers (Frey 2019; Baccini and Weymouth 2021). Analogously, privatization often produces distributional asymmetries even when it improves aggregate economic performance. We argue that privatization restructures society into winners and losers, creating a durable political trust deficit among the latter group and their community. The political consequences of privatization are driven not merely by absolute economic hardship, but by the stark contrast between the losers (laid-off workers) and the winners (politically connected elites). The losers bear substantial economic losses and experience a sense of betrayal by a state that had committed to maintaining their privileged status. A small number of winners, by contrast, captured most of the gains from privatization through illegal transactions. This disparity further intensifies political grievances. Specifically, our framework posits that privatization produces a durable trust deficit through four interrelated mechanisms:

Economic Hardships Privatization inevitably inflicts severe economic costs on “losers”—especially laid-off SOE workers whose specific human capital depreciates rapidly in a market economy (Denisova et al. 2012; Kong, Osberg and Zhou 2019). Moreover, the subsequent economic boom may exacerbate, rather than alleviate, political dissatisfaction. As overall aspirations and upward mobility increase, the relative stagnation of the “losers” becomes an even greater source of discontent (Healy, Kosec and Mo 2017). Even if laid-off workers eventually secure new employment in the market economy, their jobs remain precarious and vulnerable to economic volatility.

Elite Capture Privatization creates unprecedented opportunities for elite insiders, whose money income and private wealth were severely restricted by command economies (Walder 2003).

These insiders, according to a report by the [World Bank \(2002\)](#), “benefit immediately from liberalization and privatization because they can convert their existing control over state assets into substantial gains.” This contradicts the principle of free competition underlying economic liberalization. In many post-communist contexts, for example, state assets were sold at undervalued prices to politically connected insiders ([Aldunate et al. 2020](#); [McFaul 1995](#)). In China, local officials frequently facilitated asset stripping or sold firms to cronies in exchange for bribes ([Ru and Zou 2022](#); [Fisman and Wang 2015](#)). Citizens believe that they failed to obtain their fair share from the initial round of privatization ([Denisova et al. 2012](#)), and thus the property rights of winners are “original sin” ([Hager et al. 2022](#); [Frye 2006](#)). This perception of a rigged game taints the political authority that advanced the transition, creating persistent distrust.

Social Contract Erosion Employment in SOEs was historically the bedrock of the social contract, conferring not just cradle-to-grave welfare but also respected status ([Walder 1986](#); [Róna-Tas 1997](#)). As a quid pro quo, workers rewarded the state with political acquiescence. Privatization thus constituted a unilateral abrogation of this contract. Privatization signaled the states abandonment of its working-class base, fueling a sense of betrayal that fundamentally challenged regime legitimacy. The loss of the industrial workers “master status” created a profound identity threat ([Tajfel 1974](#)), often manifested as enduring resentment toward the regime.

Sociotropic Anxiety What is often overlooked is that the political fallout of privatization is not limited to those who personally lost their jobs. High-intensity layoffs create “rust belt” communities where even employed residents experience sociotropic anxiety. For example, the US deindustrialization caused non-laid-off individuals in these regions to witness the plight of their neighbors and fear for their own future security ([Goldstein 2017](#)). In the US rust belt communities, institutions such as governance arrangements, work and consumption arrangements, civic associations, social policies, party organizations, and labor unions also collapsed ([McQuarrie 2017](#)). This insecurity suggests that the negative effects of privatization spill over into the broader population. Therefore, we expect that exposure to privatization will erode political trust not only among the laid-off workers (“losers”) but also among the broader community that witnesses the collapse of the local order.

In sum, our theoretical framework predicts that privatization generates a persistent political trust deficit through the combined forces of economic hardships, elite capture, social contract violation, and sociotropic anxiety. We thus generate four testable hypotheses:

Hypothesis 1 (Main Effect): Citizens exposed to higher levels of privatization will exhibit a long-term deficit in political trust.

Hypothesis 2a (Economic Hardships): Citizens directly affected by privatization (laid-off workers) will have worse economic conditions than non-laid-off workers.

Hypothesis 2b (Elite Capture): Laid-off workers will report stronger concerns about inequality and corruption as gains from privatization are captured by a few politically connected elites, thereby reinforcing the deficit in political trust.

Hypothesis 2c (Social Contract Violation): Laid-off workers will report lower satisfaction with their own and their family's social status, as privatization destroyed state commitment to preserve the privileged status of workers.

Hypothesis 2d (Sociotropic Anxiety): The negative effect of privatization on political trust will spill over to the broader community, causing even those who were not personally laid off in high-privatization areas to exhibit lower levels of political trust.

Contentious Privatization in China

We test the theory in the case of China's privatization. In the 1950s, China built its centralized command economy in which SOEs only executed the predetermined production plans of the state (Lin et al. 2020). As production was tightly controlled by the state, managers and workers had few incentives to work efficiently (Lin et al. 2020; Shao et al. 2014). In the reform and opening-up of the 1980s, the government delegated the operating rights to SOE managers to improve the performance of SOEs (Xu 2011; Lin et al. 2020). In this way, managers paid a predetermined amount of profits to the government and retained the excess. Though initially successful, with increasing competition from non-state sectors and soft budget constraints, this reform failed and the financial performance of SOEs worsened rapidly in the 1990s (Lin and

Tan 1999; Maskin and Xu 2001). Anticipating huge social and political costs, privatization had been postponed by the Chinese government as much as possible (Xu 2011; Oi 2005). However, tremendous losses of the SOEs forced the government to allow privatization in 1997 to save the economy.²

The reform plan, known as “Grasp the Large, Let Go of the Small (*zhuada fangxiao*)” was implemented in the following way: local municipal governments were tasked with privatizing most small and medium-sized SOEs while the central government merged large SOEs into expansive industrial groups (Shao et al. 2014; Xu 2011). To avoid ideological conflicts during privatization, the government carefully avoided terms like “privatization (*siyouhua*)” and “lay-off (*jiiegu*),” instead favoring more neutral expressions such as “reform (*gaige*),” “restructuring (*chongzu*),” and “leave the position (*xiagang*)” (Huang et al. 2017). By 2007, over 80 percent of the SOEs present in 1998 had been shut down or privatized, and state assets worth approximately 5.7 trillion RMB (700 billion USD) had gone private (Hsieh and Song 2015; Gan, Guo and Xu 2018). The percentage of SOEs declined from 32.86% to 3.5% between 1999 and 2007, while the share of private enterprises increased from 17.27% to 70.68% (Nie, Jiang and Yang 2012). Although privatization was found to enhance economic performance and contribute to the economic miracle of China, it came at a steep price.

First, the economic success of privatization was accompanied by the layoffs of over 40 million SOE workers (Chen 2006). For most workers, the reform was unexpected; they had not anticipated being abandoned by the state (Xie 2021; Hung and Chiu 2009). Before the privatization, the SOE workers were the “aristocracy of Chinese labor”: they enjoyed well-paid jobs, lifetime job security and generous benefits for themselves and their families, pensions when they retired, and the right to pass on their jobs to their children (Dickson et al. 2016, 862). The abrupt mass layoffs led to extreme hardships: workers, often with only a junior or senior high school education and typically aged between 35 and 50, found themselves largely excluded from opportunities in the burgeoning private and foreign-invested sectors, which tended to favor younger college graduates and cheaper rural migrants (Hurst 2009, 88). Even in cities like Shanghai—where the private economy was more developed—reemployment proved challenging

²In 1997, 6,599 of 16,784 large and middle-scale SOEs reported negative earnings, with a loss of 66.6 billion yuan, and 22,391 of 59,465 small-scale SOEs lost over 24 billion yuan (Shao et al. 2014).

(Gallagher 2009, 140), while in the harder-hit regions of Northeast and Central China, millions were trapped in persistent poverty and unemployment (Hurst 2009, 90). Compensation, usually provided in the form of a one-time buyout of service length (*maiduan gongling*), was minimal and insufficient to cushion the blow (Xie 2021, 186). Moreover, the absence of a robust national social security system at the time meant that the economic shock was both widespread and deep (Zhu 2025).

Compounding these material losses was a pervasive atmosphere of corruption and non-transparency during the privatization process. Numerous studies document how state assets were sold at undervalued prices to politically connected buyers (Aldunate et al. 2020; González et al. 2020; Bel 2010). In Eastern Europe, cadres exploited their informational advantages to strip massive state assets (Staniszki 1991; Hager et al. 2022; Martimort and Straub 2009). China is not an exception: local officials sold SOE assets to politically connected buyers at substantial discounts in exchange for bribes (Ru and Zou 2022; Fisman and Wang 2015). Such asset-stripping deepened the economic losses suffered by workers and reinforced widespread perceptions of governmental malfeasance and inequality.

At the same time, privatization eroded the longstanding social contract that had long underpinned state legitimacy. In socialist China, employment in SOEs was not merely a means of earning a living—it conferred respected social status central to the identity of the working class (Walder 1986; Róna-Tas 1997). Before privatization, SOE workers and their descendants were guaranteed a lifelong job and cradle-to-grave welfare (Kong, Osberg and Zhou 2019). According to socialist doctrine, they were regarded as the most advanced class in society, the masters of their factories, and were even able to challenge factory cadres (Lee 2007; Andreas 2019). By offering political loyalty, they had long enjoyed political clout and social status that far outweighed their economic resources (Gold, Hurst and Won 2009, 9). The reform stripped workers not only of secure employment and economic entitlements but also of the social prestige and respected status (Lee 2007; Andreas 2019; Xie 2021). Workers who had once taken pride in their association with the socialist state found themselves pushed to the margins—“disenfranchised,” to use Andreas (2019)’s term—an irreversible psychological trauma that was more devastating than material hardships.

Privatization affected not only laid-off workers but also the broader communities. This is because SOEs were responsible for providing a large amount of public goods to society (*qiye banshehui*) (Hurst 2009). Privatization undermined established community institutions and networks built around SOEs. Qualitative evidence provided by Xie (2021) shows that privatization engendered a distinct “rust belt” ethos, including mistrust of institutions and rules and cynicism toward the state, among people born in the 1950s and 1960s in the Northeast. In the cultural arena, the popularity of a wave of films, television dramas, and novels that nostalgically revisit the history and aftermath of SOE privatization suggests that the episode has left durable scars in collective memory even after decades of rapid aggregate growth (Wang 2024).

Thus, while privatization succeeded in boosting China’s economy, it did so with a high social cost. The cost, as manifested through economic losses, elite capture, social contract violation, and sociotropic anxiety, sets the stage for the enduring political trust deficit that we examine in this study.

Empirical Design

The Subnational Context: Locally Initiated Experiments

The empirical analysis exploits the sub-national (county-level) variation in China’s privatization. The decentralized nature of privatization, regarded as locally initiated experiments, provides rich local variation (Oi 2011; Zhu and Rothschild 2025, 10). In China, aside from a small number of large SOEs controlled by the central government, over 70% of SOEs have been de facto owned by local governments since the 1960s (Xu 2011). SOEs have contributed significantly to local economic growth and fiscal revenue and have been used by upper-level governments for cadre promotion (Maskin, Qian and Xu 2000; Gan, Guo and Xu 2018). The 15th Communist Party Congress in 1997 permitted local governments to conduct privatization at their own discretion. Since SOEs are important for local governments, officials chose the scale, method, and timing of privatization very cautiously (Lin et al. 2020; Oi 2005; Zeng 2013). While local officials generally pursue privatization to create fiscal revenue and boost economic growth for promotion, cities with stronger fiscal capacity and more active non-state sectors pri-

vitalize SOEs more aggressively because they are better able to absorb the shocks (Gan, Guo and Xu 2018; Li and Oi 2018). Although the chaotic process of privatization poses a challenge in identification, the primary determinant of privatization scale remains the share of SOEs in the local economy. In later sections, we will exploit exogenous variation in the county-level scale of privatization.

Data

Privatization Scale The main independent variable in this study is the sub-national (county) level scale of privatization. Formally, we define *Privatization Layoffs_c* as the number of layoffs per worker in county *c* from 1998 through 2006, calculated as total layoffs during this period divided by the total worker population in county *c* in 1998. The primary data source to calculate this scale is the Annual Survey of Industrial Firms (ASIF) from 1998–2006. Maintained by the National Bureau of Statistics of China, the ASIF is a panel dataset that includes financial and management information on all SOEs and non-SOEs with sales over five million yuan. Data between 1998 and 2006 were chosen because 1998 marked the first year large-scale privatization started and most privatization programs were completed by 2006 (Hsieh and Song 2015). Following Huang et al. (2017), a firm *i* is classified as an SOE if the capital share of state ownership exceeds 30 percent in the first year the firm enters ASIF. This 30 percent threshold corresponds to the definition of relative state control in official documents.³ We obtain unique firm codes based on the firm’s name, zip code, telephone number, and founding year following the procedures developed by Brandt, Van Biesebroeck and Zhang (2012), yielding an unbalanced panel dataset of 139,122 SOEs during 1998–2006. Although the ASIF data is not without issues, its employment information is considered less likely to be systematically manipulated than that in statistical yearbooks compiled by local governments and widely used in previous research (Nie, Jiang and Yang 2012). Thus, the ASIF is regarded as the best available data for measuring nationwide privatization.

³The registered ownership type is not used to specify an SOE since some SOEs do not change their registered ownership type even after ownership restructuring (Dollar and Wei 2007).

Political Attitudes and Behavior To measure political attitudes and behavior, we primarily use the 2008 China Survey—a nationally representative survey implemented by the Research Center for Contemporary China at Peking University in 2008. The survey employed a spatial sampling technique to randomly select 3,989 adults across 73 counties in 59 prefectures of 25 provinces in China (Landry and Shen 2005). Respondents were asked how much they trusted officials on a scale from 1 (not at all) to 4 (very much). We primarily use reported trust in community and county officials to measure political attitudes toward local governments. Additional outcome measures include respondents' tolerance for public demonstrations and criticism of the CCP. We construct a binary variable equal to one if respondents have ever participated in a protest and would be willing to participate in future protests, to measure contentious political behavior.

The main dataset used to investigate the mechanisms of privatization is the China Family Panel Survey (CFPS), a large-scale, nationally representative panel survey conducted by the Institute of Social Science Survey at Peking University.⁴ Using a multistage probability sampling procedure, CFPS conducted interviews with 14,798 households and all individuals living in these households, resulting in approximately 36,000 completed adult observations. CFPS includes a question asking whether individuals were once subject to a “buyout (*maiduan gongling*),” a term indicating layoffs due to privatization. These laid-off workers were directly affected by privatization. Because questions regarding political attitudes and layoff experience were asked only from 2012 onward, the CFPS baseline survey conducted in 2010 (hereafter CFPS-2010) is used to measure demographic and socioeconomic characteristics, and CFPS-2012 is used to capture layoff experience and political trust in the government. Individuals who completed both waves are retained, resulting in a sample of around 20,000 respondents; 594 workers were laid off due to privatization at an average age of 48.

The advantage of CFPS over the China Survey is its larger sample size and its ability to confirm individual job losses due to privatization. Additionally, the CFPS records respondents' residence at age 3, allowing us to identify non-migrant populations and address potential selection bias arising from internal migration. One limitation is that the public version of CFPS

⁴Details about the CFPS project are available at www.iss.edu.cn/cfps.

lacks county identifiers, complicating the direct linkage of external privatization data. We thus exploit the survey’s cluster sampling design to construct a proxy for local layoff intensity by calculating the percentage of laid-off workers among total respondents in a county. Regarding the validity of self-reported political trust, one concern is preference falsification in authoritarian regimes like China. Rather than relying on measures of trust in the central government, we focus on trust in local officials, because preference falsification is significantly less pronounced for local government evaluations than for assessments of the central leadership (Nicholson and Huang 2023).

Other County-level Variables Local government expenditure on social welfare, education, public security, and public administration is used to measure public goods provision, while GDP per capita and industrial output are used to capture local economic development. These data are compiled into a county-year panel dataset covering approximately 3,000 counties from 1997 to 2006. Data on local public goods provision are sourced from the Fiscal Statistical Yearbook of Chinese Cities and Counties, and data on population and GDP are partly obtained from the China County Socio-Economic Statistical Yearbook.

Estimation Framework

The analysis first examines the effect of privatization layoffs on individual political attitudes and behavior using the following specification:

$$Y_{icp} = \alpha_0 + \beta \text{Privatization Layoffs}_c + \mathbf{X}_c \delta' + \mathbf{\Lambda}_{icp} \theta' + \gamma_p + \epsilon_{icp}, \quad (1)$$

where i , c , and p denote individuals, counties, and provinces, respectively. The dependent variable Y_{icp} represents outcomes related to citizens’ political attitudes and behavior. The variable $\text{Privatization Layoffs}_c$ is as defined in the Data section above: the number of layoffs per worker in county c from 1998 through 2006. The vectors \mathbf{X}_c and $\mathbf{\Lambda}_{icp}$ include an extensive set of county-level and individual-level pre-treatment controls. County-level controls include the number of deaths during the Cultural Revolution (1966–1976), the intensity of the Great Leap Forward in the 1950s, population and GDP per capita in 1997, longitude and latitude, and the

government’s fiscal income and expenditure in 1997. These covariates have been used in previous studies on the determinants of Chinese political attitudes (e.g., [Wang 2021](#)). Individual-level controls include age, age squared, Han ethnicity, urban household registration (*chengshi hukou*), number of siblings, CCP membership, gender, education, and family class background in the 1950s. The term γ_p represents province-fixed effects that account for time-invariant differences across provinces, while ϵ_{icp} is the error term. Standard errors are clustered at the county level throughout the analysis.

The main threat to identification is that privatization did not occur randomly, and omitted variables may drive a spurious correlation between privatization and the outcome. To address this, following [Baccini and Weymouth \(2021\)](#) on US deindustrialization, we construct a Bartik instrument to exploit exogenous variation in layoffs at the county level. Specifically, the instrument is constructed as:

$$\text{Bartik instrument}_c = \frac{\text{SOE employment}_c}{\text{Total employment}_c} \times \frac{\text{Privatization Layoffs}_{-c}}{\text{Total employment}_{-c}},$$

where SOE employment_c is the number of SOE workers in county c in 1998, $\text{Total employment}_c$ is the total employment in county c in 1998, $\text{Privatization Layoffs}_{-c}$ is the number of layoffs in China excluding county c between 1998 and 2006, and $\text{Total employment}_{-c}$ is the total number of workers in China excluding county c in 1998. All measures are derived from the ASIF. The instrument leverages national shocks to SOEs, with the local SOE employment share capturing shock exposure. Importantly, this approach allows for the potential endogeneity of the local SOE employment share. For the instrument to yield a causal interpretation, the national privatization shock should be as-good-as-randomly assigned conditional on key county-level confounders such as GDP per capita ([Borusyak, Hull and Jaravel 2022](#)). The instrument may be invalid if, for instance, counties anticipated the national privatization shock and adjusted their SOEs accordingly, with such strategic responses correlated with citizens’ political attitudes. However, this scenario is unlikely given that the central government determined the timing of privatization, leaving localities unprepared ([Hurst 2009](#)). Appendix Figure [A.2](#) demonstrates that the instrument is uncorrelated with key county-level confounders (e.g., GDP per capita, fiscal expenditure, and income) after controlling for provincial fixed effects, alleviating concerns

about bias. The IV regression is estimated using a two-stage least squares (2SLS) framework.

The first-stage model is specified as:

$$\text{Privatization Layoffs}_c = \alpha_0 + \gamma \text{Bartik instrument}_c + \mathbf{X}_c \delta' + \gamma_p + \epsilon_{cp}, \quad (2)$$

and the second-stage model is:

$$Y_{icp} = \alpha_0 + \beta \widehat{\text{Privatization Layoffs}}_c + \mathbf{X}_c \delta' + \mathbf{\Lambda}_{icp} \theta' + \gamma_p + \epsilon_{icp}. \quad (3)$$

Main Results

Table 1 reports the baseline 2SLS results on the effect of county-level privatization on the political attitudes and behavior of citizens. Consistent with Hypothesis 1, the results indicate that citizens in counties with higher levels of privatization layoffs were more likely to distrust community and county officials. Moreover, these citizens exhibited greater tolerance for public demonstrations and criticism of the CCP, a behavior that is considered taboo in the public sphere of China. Importantly, they were also more likely to participate in protests. The consistent pattern of significant coefficients across different outcomes suggests that layoffs rendered citizens politically more contentious. Our findings on citizens contentious behavior align with [Chen and Xu \(2025\)](#), who find that citizens in cities with higher numbers of layoffs were more likely to participate in banned religious activities and to rank religious freedom among their top three most important human rights. The magnitude of the effects we find is also noteworthy; for example, one standard deviation (0.21) increase in the privatization layoffs associated with a 4.24% and 5.04% decrease in trust in community and county officials from the mean of the dependent variable, a 12.7% and 44.3% increase in tolerance for public demonstrations and for criticism of the CCP, and a 58.8% increase in protest participation.

Mechanisms

Having established the causal effects of privatization layoffs on contentious political attitudes and behavior, we turn to testing the proposed mechanisms (Hypotheses 2a, 2b, 2c, and 2d).

Table 1: The Impact of Privatization on Political Attitudes and Behavior: IV Estimates

	(1)	(2)	(3)	(4)	(5)
	Distrust in community officials	Distrust in county officials	Tolerance on public demonstrations	Tolerance on criticism of the CCP	Protest
$\widehat{\text{Privatization layoffs}}$	0.463** (0.207)	0.550** (0.228)	1.575*** (0.421)	0.211*** (0.065)	0.028** (0.011)
Provincial FE	✓	✓	✓	✓	✓
Individual controls	✓	✓	✓	✓	✓
County controls	✓	✓	✓	✓	✓
Mean of the dependent variable	2.29	2.30	2.60	0.10	0.01
Observations	1620	1403	1440	1851	1615
Number of Counties	37	37	37	37	37
R ²	0.04	0.04	0.05	0.03	0.03

Note: This table presents the second-stage results from the 2SLS estimation of the effects of layoffs on political attitudes and behavior. Distrust in community and county officials is measured from 1 (trust them very much)-4 (don't trust them at all). Tolerance on public demonstrations is the answer to the statement: public demonstrations should be forbidden. The answer ranges from 1 (strongly agree) to 5 (strongly disagree). Tolerance on criticism of the CCP is a binary variable equal to 1 if one can accept people who criticize the CCP. Following Wang (2021), protest is a binary variable equal to 1 if one once joined a protest, sit-in or demonstration and would not hesitate to join it in the future. Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

The analysis mainly relies on the CFPS data, which records whether individuals were laid off specifically due to privatization. Ideally, individual-level panel data surveyed before and after privatization should be used to identify the causal effects of layoffs. However, since such data is unavailable in China, mechanism analysis based on individual-level cross-sectional surveys should be viewed as suggestive rather than causal. To improve the comparability between laid-off and non-laid-off workers, we use the entropy balancing method proposed by Hainmueller (2012) to construct a matched sample conditional on a set of individual covariates, including gender, urban registration (*chengshi hukou*), age, Han Chinese ethnicity, high-school-or-above education, marriage status, number of siblings, and CCP membership. We use this matched sample throughout the analysis. Table A.1 shows that being laid-off is associated with lower trust in local officials until 2016, almost two decades after the peak of privatization.

Economic Hardships To test Hypothesis 2a, we investigate the consequences of layoffs on individual economic conditions. The results, presented in Table 2, show that layoffs were associated with significantly lower income during 2010–2016 (Columns 1–4). The income gap is substantial; for example, laid-off workers earned around 3,416 yuan (around 505 USD) less than matched non-laid-off workers (sample average 9,302 yuan) in 2010. The disparity re-

mained substantively meaningful through 2016. In Column (5), we find that laid-off workers were more likely to believe that their income was in the lower strata of their communities. Column (6) shows that they were less likely to have social insurance, making them even more vulnerable to socioeconomic shocks.

Table 2: Layoffs and Economic Hardships

	(1)	(2)	(3)	(4)	(5)	(6)
	2010 Income	2012 Income	2014 Income	2016 Income	Income evaluation	No insurance
I[layoff]	-3416.179*** (1175.875)	-5264.731*** (1322.359)	-2933.174*** (961.391)	-633.314* (352.525)	-0.211*** (0.049)	0.044** (0.022)
County FE	✓	✓	✓	✓	✓	✓
Age FE	✓	✓	✓	✓	✓	✓
Observations	19799	19776	17308	12325	18732	19800
Number of Counties	161	161	161	161	161	161
Adjusted R ²	0.13	0.12	0.16	0.05	0.15	0.15

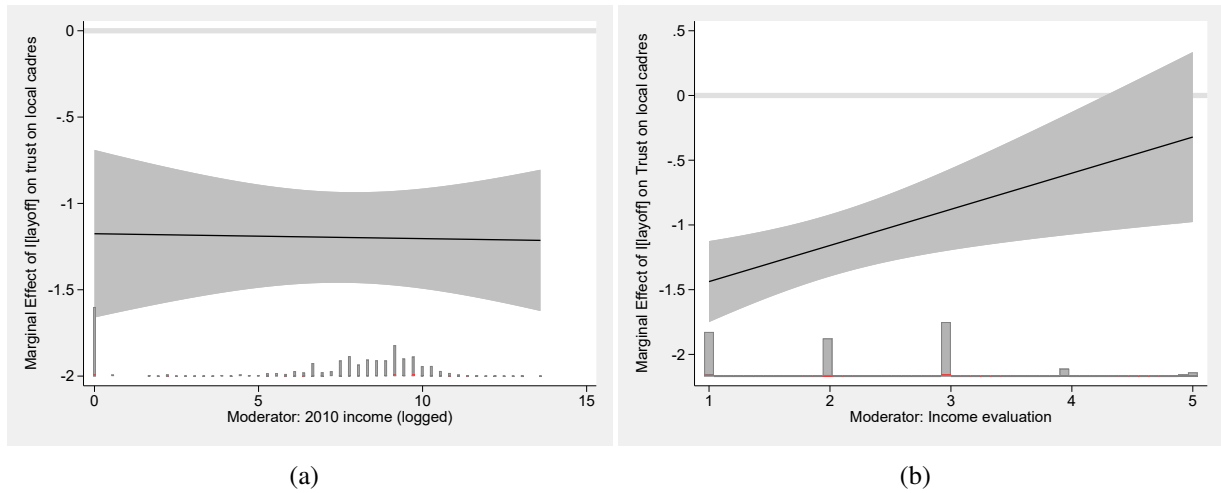
Note: This table shows the relationship between individual layoffs and economic conditions. *No insurance* is a binary variable equal to 1 if respondents have no social insurance. *Income evaluation* is an ordinal variable on one's self-assessed income rank within the local community, ranging from 1 (lowest) to 5 (highest). All models include county and age fixed effects. Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

The results indicate that, on average, laid-off workers experienced worse economic conditions. However, it remains unclear whether laid-off workers who achieved favorable economic outcomes after privatization would still exhibit lower levels of trust in government. Existing scholarship suggests that political trust should recover when laid-off workers are adequately compensated economically, yet this proposition has rarely been subjected to a direct empirical test. To test this, we interact the layoff indicator with two measures of respondents post-privatization economic status: their income in 2010 and their self-assessed income rank within the local community. To estimate these interaction effects on trust in local cadres, we employ the robust approach proposed by [Hainmueller, Mummolo and Xu \(2019\)](#). Figure 1 shows that the association between layoff and political trust remains negative even among respondents with high incomes and those who consider themselves to be in the top income group in their localities.

This analysis has two important implications for our argument. First, it indicates that the economic losers of privatization continued to experience worse economic conditions long after the privatization ended. Second, and even more strikingly, substantial improvements in material well-being are not sufficient to eliminate the trust deficit among laid-off workers, indicating that

Figure 1: Marginal Effects of Layoff on Trust in Local Officials by Economic Conditions



Note: This figure visualizes the marginal effects of layoff on trust in local officials using the CFPS dataset. Results are obtained using the method proposed by [Hainmueller, Mummolo and Xu \(2019\)](#). The moderators are the income in 2010 (logged) in (a) and self-assessed income rank in (b).

other mechanisms may also drive the enduring distrust.

Elite Capture A direct test of Hypothesis 2b requires measuring elite capture, which is hard to measure in authoritarian contexts. The analysis therefore uses respondents' subjective evaluations of corruption severity and inequality as outcome variables, following the intuition that a rigged privatization process should heighten citizens' sense of governmental malfeasance and distributional injustice. This approach is grounded in qualitative evidence that laid-off workers overwhelmingly attributed the collapse of their SOEs to cadre corruption and insider dealing rather than to impersonal market forces ([Hung and Chiu 2009](#)).

The results are shown in Table 3. We find that laid-off workers were more likely to view government corruption and social inequality as severe social problems. Moreover, they expressed significantly lower tolerance for inequality as a trade-off for economic growth. This last finding is particularly revealing, indicating that exposure to privatization layoffs even reshapes the normative lens through which citizens evaluate the regime's distributive choices going forward.

To probe whether layoff experiences affected political trust exactly through these perceptions, we conduct causal mediation analyses following [Imai, Keele and Tingley \(2010\)](#); the results are reported in Appendix Figure A.1. Perceived corruption severity mediates approximately 8.7% of the total effect of layoffs on political trust, and perceived inequality severity yields a comparable mediated share. While these proportions are modest in absolute terms,

Table 3: Layoffs and Concerns over Corruption and Inequality

	(1)	(2)	(3)
	Severity of corruption	Severity of inequality	Tolerance for inequality
I[layoff]	0.256* (0.143)	0.249** (0.122)	-0.142** (0.058)
County FE	✓	✓	✓
Age FE	✓	✓	✓
Observations	18176	18846	15909
Number of Counties	161	161	161
Adjusted R ²	0.14	0.13	0.13

Note: *Severity of Corruption* and *Severity of inequality* are ordinal variables on the respondents' subjective evaluation of the severity of government corruption and income inequality problem, ranging from 0 (not severe at all) to 10 (extremely severe). *Tolerance for inequality* is the respondents' agreement to the following statement: income inequality should be increased for economic development. It is an ordinal variable ranging from 1 (extremely disagree) to 5 (extremely agree). Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

and must be interpreted cautiously given the strong ignorability assumptions underlying causal mediation, they confirm that elite capture perceptions constitute a distinct pathway linking the privatization shock to enduring political disaffection.

Social Contract Violation To test the social contract violation hypothesis, the analysis focuses on respondents evaluations of their own and their familys social status. This focus is consistent with qualitative evidence showing that laid-off workers often report a decline in social status, from state-endorsed working class to precarious wage laborers (e.g., [Andreas 2019](#); [Xie 2021](#)). Accordingly, the analysis uses respondents assessments of their own and their familys social status within the local community as the outcome variable. The results, reported in [Table 4](#), indicate that laid-off workers are more likely to perceive both their own and their familys social status as lower. More importantly, this dissatisfaction with social status appears to be independent of income, as a similar pattern is observed even among laid-off workers who are satisfied with their current income ([Table A.2](#)).

Sociotropic Anxiety We test the sociotropic anxiety mechanism. First, we estimate a two-way fixed-effects model using county-year panel data from 1998 to 2006, with annual layoffs as the key independent variable and various measures of local economic development and public goods provision as outcome variables. [Figure 2](#) presents the results. While privatization con-

Table 4: Layoffs and Evaluation of Social Status

	(1)	(2)
	Individual social status	Family social status
I[layoff]	-0.160*** (0.045)	-0.097* (0.050)
County FE	✓	✓
Age FE	✓	✓
Observations	19641	19385
Number of Counties	161	161
Adjusted R ²	0.16	0.13

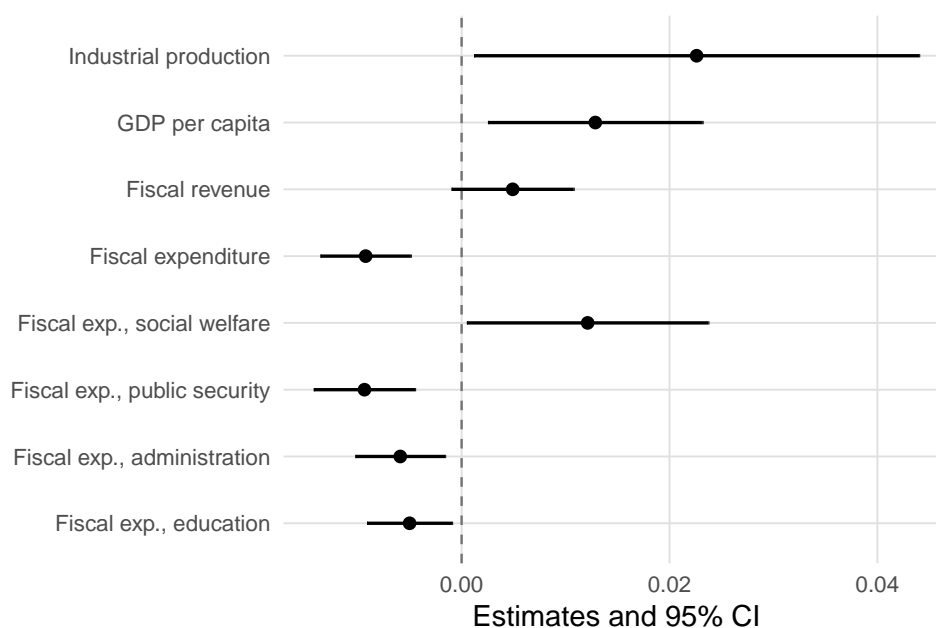
Note: Individual social status and Family social status are ordinal variables on the respondents' subjective evaluation of their own and their family's social status in their localities, ranging from 1 (lowest) to 5 (highest). Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

tributes to increases in industrial production, GDP per capita, fiscal revenue, and social welfare expenditure, it is also associated with declines in fiscal spending on public security, administration, and education. In other words, although privatization generated economic growth, that growth did not translate into broader improvements in public goods provision that may benefit the broader community, and may even have reduced public goods provision in some domains. To provide a more direct test, we examine the association between layoff intensity and political trust of respondents who were *not* personally laid off. As reported in Table 5, we find a strong negative relationship between local layoff intensity and the political trust of non-laid-off residents. This suggests that sociotropic anxiety also erodes trust even among those who retained their jobs.

We also conduct several robustness checks. First, we show that being laid off is not associated with concerns over less related issues such as environmental protection, education, medical services, and housing (Table A.3), supporting the claim that the negative effect of privatization is specific to political trust rather than reflecting a generalized dissatisfaction. Second, to address the threat of internal migration bias, we restrict the sample to non-migrants—respondents who still reside in the county where they lived at age 3—and find that the distrust still exists (Table A.4). Third, one reasonable concern may be that laid-off workers and citizens in areas exposed to high privatization were more likely to express their political grievances than others, thus resulting in differential reporting bias. While we cannot completely eliminate the bias

Figure 2: The Impact of Privatization on Economic Development and Public Goods Provision



Note: This figure shows the correlation between county-level privatization layoff intensity and other socio-economic variables of interest. Each circle indicates a point estimate, and the horizontal lines are the 95% confidence intervals. Robust standard errors are clustered at the county level.

Table 5: Layoff Intensity and Political Trust among Non-laid-off Workers

	DV: Trust in local officials				
	(1)	(2)	(3)	(4)	(5)
	2012	2014	2016	2018	2020
Layoffs %	-3.672*** (0.982)	-2.632** (1.021)	-2.753** (1.072)	-1.726 (1.232)	0.948 (1.189)
Province FE	✓	✓	✓	✓	✓
Age FE	✓	✓	✓	✓	✓
Individual controls	✓	✓	✓	✓	✓
Observations	23965	20251	19421	17547	12416
Number of Counties	161	161	161	161	161
Adjusted R ²	0.05	0.06	0.05	0.06	0.03

Note: This table presents the correlation between layoff intensity and trust in local officials among non-laid-off workers. Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

due to data limitation, we examine whether laid-off workers were more or less likely to choose not to answer the political trust question. We find no statistically significant difference in non-response rates, at least for the question on trust in local officials in both China Survey and CFPS data (Tables A.5 and A.6), suggesting that differential willingness to respond is unlikely to drive our results.

Conclusions

After examining China's privatization—one of the most successful economic transitions—we find that large-scale privatization layoffs in a locality led to enduring distrust in government, as measured by individual surveys conducted a decade after the peak of privatization. Moreover, substantial improvements in economic conditions failed to mitigate distrust among laid-off workers. More recent survey data (2012–2020) that include individual layoff status yield consistent results on political trust over an even longer time horizon: laid-off workers exhibited significantly lower trust in government as late as 2016, eighteen years after the peak of privatization. This trust deficit was mediated by perceptions of inadequate social welfare, inequality, corruption, diminished social status, and sociotropic anxiety.

While politicians tout “short-term pain, long-term gain” and a J-curve growth trajectory to legitimize reforms, the case of China demonstrates how substantial and durable the political costs of privatization can be, even in a setting of remarkable subsequent economic success. Even when economic gains are realized, privatization is still remembered as a betrayal and a reason for distrust. Moreover, our study provides another striking comparative example that parallels the concept of *Ostalgie* in post-unification East Germany and the enduring East-West divide in electoral support, despite thirty years of integration and overall economic growth ([Alesina and Fuchs-Schündeln 2007](#)).

More broadly, it is noteworthy that the effects of privatization go beyond the political arena. [Xie \(2021\)](#) find that the frustrating experiences of searching for new employment instilled more fatalistic, defeated, and demoralized outlooks in laid-off workers, and made them more reliant on personal connections and less inclined to believe in self-made market actors. Moreover, [Chen and Xu \(2025\)](#) show that the scale of state economy (and the size of the subsequent layoffs) in a locality is positively associated with the prevalence of religious cults in post-reform China. Future research will benefit from examining the long-term effects of economic transitions on political behavior and culture in authoritarian regimes.

While this article examines a reform that ended, our findings also have some implications for the political economy of contemporary China. By the 2020s, similar state-driven economic hardships are unfolding in China. Policies such as tightening real estate credit, regulatory crack-

downs in the tech and financial sectors, and the economic fallout from COVID-19 lockdowns has caused significant distress among certain segments of the population. Like the privatization era, these government policies have disproportionately affected concentrated groups—particularly private property owners and beneficiaries in sectors like tech and finance—leading many to attribute their current struggles to government actions. This sense of blame from those who greatly benefited from a successful private economy that the state was committed to building in the past few decades echoes the disillusionment felt by once-privileged urban SOE workers in the late 1990s. The lessons from privatization suggest that even if the Chinese economy successfully restructured and regained rapid growth, the scarring effects may still linger on political trust in the years to come.

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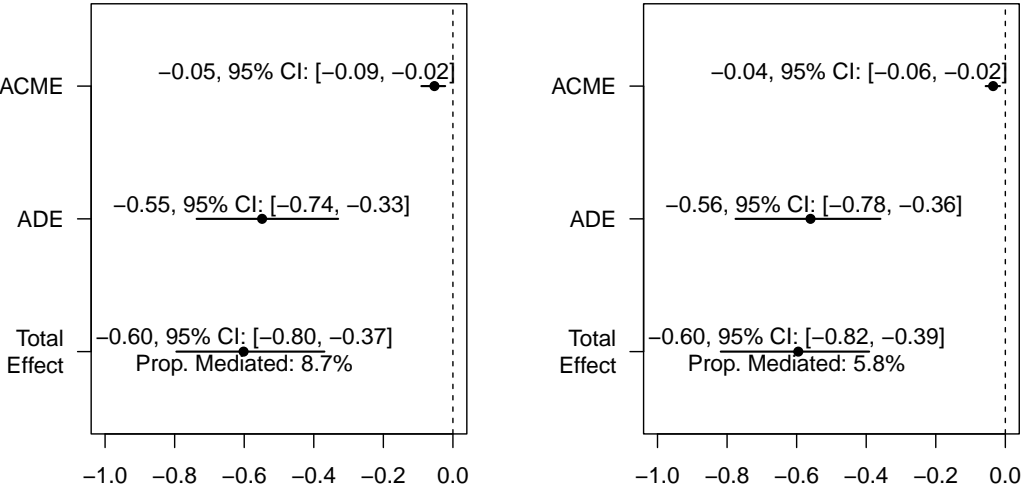
Online Appendix

Data Construction

In the dataset, every firm is given a unique firm code. A small number of firms may have changed their firm codes within the sample period but remained in the sample. We thus clean the data as [Brandt, Van Biesebroeck and Zhang \(2012\)](#). First, if the year t observation of a firm cannot be matched to any firm's observation in year $t+1$ based on the firm code, we try to find a firm with the same name in year $t+1$, and match them by giving the year $t+1$ observation the same firm code as the year t observation. Second, for those firms that cannot be matched by the code or name, we rely on the combinations of the zip code, telephone number and the founding year to match them. We delete firms with missing key information, i.e. assets and state capital share. Our final sample contains 77,676 distinct firms among 54 industrial classes, with 50,719 in 1998 and 23,693 firms in 2005. The average capital increase from 17.6 million in 1998 to 50.75 million RMB in 2005 and average profits increased from 31 thousand to 8.52 million RMB. The state capital share decreases from 92.78% to 58.95% . 54 industrial class. We got 3,018 county-level scale of privatization in 31 provinces.

Additional Figures and Tables

Figure A.1: Causal Mediation Analysis of Mechanisms



(a) Evaluation on corruption severity

(b) Evaluation on inequality severity

Note: This figure visualizes the results from causal mediation analysis ([Imai, Keele and Tingley 2010](#)). The layoff is the treatment, trust in local officials is the outcome, and evaluation on the corruption and inequality severity are mediators. We show coefficients and 95% CI and the proportion of mediated effects for the average controlled mediation effects (ACME), average direct effects (ADE), and the total effect.

Table A.1: Individual Layoff and Political Trust

	DV: Trust in Local Officials				
	(1)	(2)	(3)	(4)	(5)
	2012	2014	2016	2018	2020
I[layoff]	-0.471*** (0.127)	-0.318** (0.146)	-0.378*** (0.140)	-0.110 (0.143)	-0.115 (0.184)
County FE	✓	✓	✓	✓	✓
Age FE	✓	✓	✓	✓	✓
Mean of the dependent variable	4.23	4.37	4.65	4.78	5.58
Observations	19394	16443	15387	13998	9410
Number of Counties	161	161	161	161	161
Adjusted R ²	0.13	0.16	0.16	0.14	0.11

Note: This table shows the correlation between layoffs and the political trust of local officials in five waves of CFPS. Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

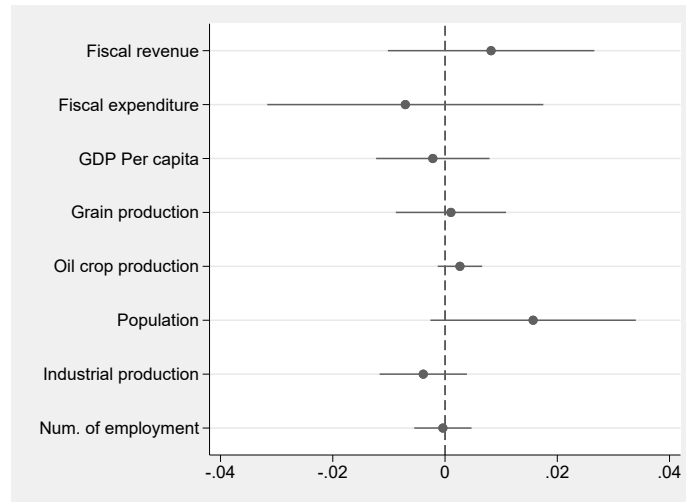
Table A.2: Layoff and Social Status Evaluation among Respondents Satisfied with Their Income

	DV = Status Evaluation	
	(1)	(2)
	Individual	Family
I[layoff]	-0.410*** (0.116)	-0.360** (0.172)
County FE	✓	✓
Age FE		
Observations	2193	2177
Number of Counties	156	156
Adjusted R ²	0.47	0.36

Note: The sample only includes respondents who are satisfied with their income. Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

Figure A.2: The correlation between the IV and other county-level covariates



Note: This figure visualizes the coefficients and corresponding 95% CI of regressing the instrument on socioeconomic county-level covariates: fiscal revenue, expenditure, GDP per capita, grain production, oil crop production, population, industrial production, and employment, conditional on province fixed effects.

Table A.3: Layoff and Attitudes on Other Social Issues: Placebo Tests

	(1) Environment protection	(2) Education	(3) Medical service	(4) Housing
I[layoff]	0.005 (0.024)	0.024 (0.024)	0.021 (0.026)	0.029 (0.023)
County FE	✓	✓	✓	✓
Age FE	✓	✓	✓	✓
Mean of the dependent variable	0.55	0.49	0.55	0.52
Observations	19800	19800	19800	19800
Number of Counties	161	161	161	161
Adjusted R ²	0.12	0.13	0.12	0.13

Note: This table presents the correlation between layoff and evaluation of severity of these social issues as placebo tests. Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

Table A.4: Layoff and Political Trust: Excluding Migrants

	DV = Trust in Local Officials				
	(1)	(2)	(3)	(4)	(5)
	2012	2014	2016	2018	2020
I[layoff]	-0.493*** (0.131)	-0.259* (0.155)	-0.326** (0.145)	-0.064 (0.151)	-0.034 (0.186)
County FE	✓	✓	✓	✓	✓
Age FE	✓	✓	✓	✓	✓
Mean of the dependent variable	4.25	4.41	4.69	4.79	5.59
Observations	18824	15974	14948	13609	9155
Number of Counties	161	161	161	161	161
Adjusted R ²	0.14	0.15	0.16	0.15	0.10

Note: This table presents the correlation between layoff and trust in local officials excluding migrants. Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

Table A.5: Privatization and No Responses in Surveys

	DV = No Response on Following Questions				
	(1)	(2)	(3)	(4)	(5)
	Distrust in community officials	Distrust in county officials	Tolerance on public demonstrations	Tolerance on criticism of the CCP	Protest
Privatization layoffs	-0.137 (0.100)	0.061 (0.121)	-0.282*** (0.090)	-0.252*** (0.071)	0.188*** (0.047)
Provincial FE	✓	✓	✓	✓	✓
Individual controls	✓	✓	✓	✓	✓
County controls	✓	✓	✓	✓	✓
Mean of the dependent variable	0.12	0.25	0.23	0.05	0.14
Observations	1851	1851	1851	1851	1851
Number of Counties	37	37	37	37	37
Adjusted R ²	0.10	0.07	0.25	0.03	0.13

Note: This table presents the correlation between layoff intensities and no response on the questions. Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

Table A.6: Privatization and No Responses in Surveys (Cont.)

(1)	
DV = No Response on Trust in Local Officials	
I[layoff]	-0.002 (0.004)
County FE	✓
Age FE	✓
Observations	19800
Adjusted R ²	0.09

Note: This table presents the correlation between layoffs and no response on Trust in Local Officials. Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

Table A.7: Migration and Political Trust Among Laid-off workers

	DV = Trust in Local Officials				
	(1)	(2)	(3)	(4)	(5)
	2012	2014	2016	2018	2020
I[Migrated]	0.018 (0.358)	-0.115 (0.449)	-0.341 (0.364)	0.325 (0.495)	0.255 (0.550)
County FE	✓	✓	✓	✓	✓
Age FE	✓	✓	✓	✓	✓
Mean of the dependent variable	3.78	3.92	4.28	4.52	5.55
Observations	562	463	418	379	259
Number of Counties	76	72	68	67	56
R ²	0.04	0.07	0.07	0.03	-0.02

Note: This table presents the correlation between migration and trust in local officials among laid-off workers. Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)

Table A.8: Determinants of Migration Among Laid-off Workers

	DV = Migrated	
	(1)	(2)
High school or above education	-0.013 (0.028)	
CCP member		-0.003 (0.033)
County FE	✓	✓
Age FE	✓	✓
Observations	565	565
Number of Counties	76	76
Adjusted R ²	0.004	0.004

Note: This table presents the correlation between migration and individual capacity among laid-off workers. Standard errors clustered at the county level are reported in parentheses. FE = fixed effects.

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed test)