

THE EVOLVING BENEFITS OF COMMUNIST PARTY MEMBERSHIP IN  
CONTEMPORARY CHINA

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**Introduction**

For the first time since I started visiting my friend in his dorm room, his laptop was closed. He sat hunched over his desk, pencil in hand, scribbling out character after character on the grid-like paper only used for the most official Chinese essays. While studying abroad in the People's Republic, I rarely saw my Chinese friends using their desk for anything but gaming or streaming movies online. The occasional homework assignment was almost always typed out and printed. So it immediately struck me as odd that my friend Xue Xiao was now hunched over his desk, laboring over this handwritten paper. With a sigh, he grumbled, "It's for my Party membership."

I was surprised. We had known each other for months, and this was the first time Xue Xiao mentioned the Chinese Communist Party. And from the way he was agonizing over the whole assignment, he seemed less than inspired to write a paper praising the merits of Marxism. As he later explained, it was improved career prospects, not ideological commitment that had motivated him to apply for Party membership. In an increasingly competitive job market, he saw a Party card as an edge that might translate into a better position or higher pay.

Communist Party members are among China's most rich and powerful, a fact easily understood from the news. Earlier this year, a Bloomberg investigation revealed president-elect Xi Jinping's relatives now control assets worth over \$700 million dollars.

And just weeks before the Party was set to announce its new leaders, a *New York Times* report revealed prime minister Wen Jiabao's family has amassed a fortune worth an estimated \$2.7 billion.<sup>1</sup> In 2011, the richest 70 members of China's legislature brought in more income than the net worth of all 535 members of the U.S. Congress, the president, his cabinet, and the Supreme Court, combined. Their collective net worth rose to a staggering \$89.8 billion dollars, making the \$7.5 billion net worth of the U.S. government's top 660 officials look modest in comparison.<sup>2</sup>

But not all of the CCP's 83 million members have amassed similar fortunes. The shocking wealth of select Party members appears to be an exception rather than a rule. Nonetheless, my friend remained adamant that his "Party card" would translate into professional and material benefits. I was left to wonder, for the average citizen in modern China, does Party membership really have its benefits?

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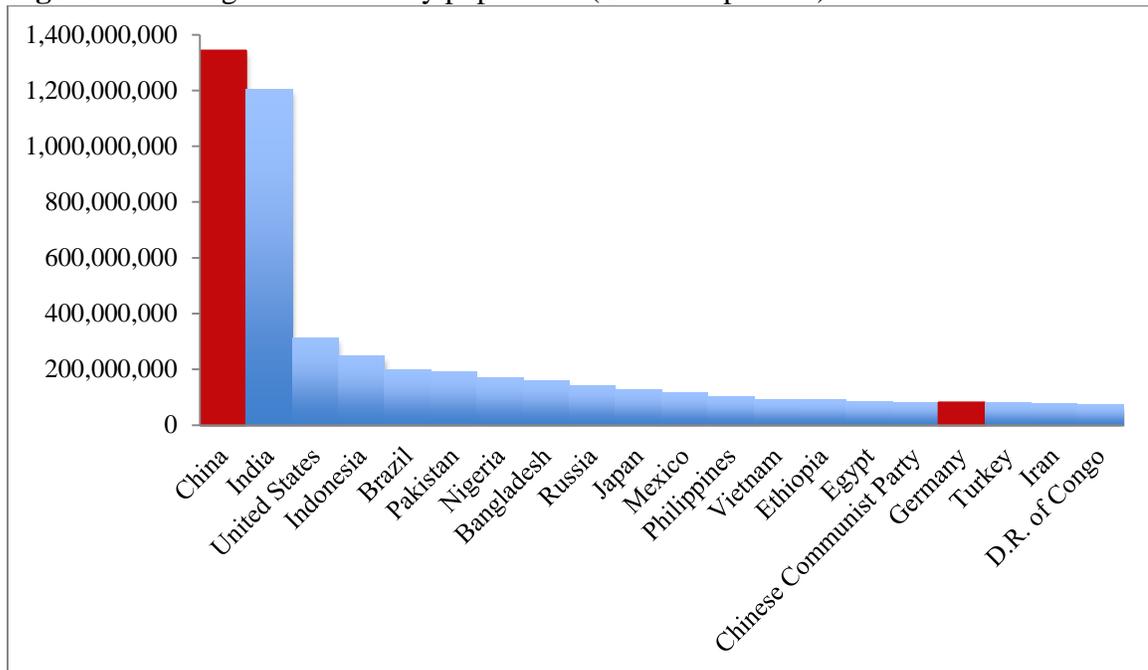
<sup>1</sup> David Barboza, "Billions in Hidden Riches for Family of Chinese Leader," *The New York Times*, October 25, 2012, accessed November 24, 2012, <http://www.nytimes.com/2012/10/26/business/global/family-of-wen-jiabao-holds-a-hidden-fortune-in-china.html?pagewanted=all>.

<sup>2</sup> Michael Forsyth, "The Chinese Communist Party's Capitalist Elite," *Bloomberg Businessweek*, March 01, 2012, accessed November 23, 2012, <http://www.businessweek.com/articles/2012-03-01/the-chinese-communist-partys-capitalist-elite>.

## Chapter 1: Background

After founding the People's Republic of China (PRC) in 1949, the Chinese Communist Party (CCP) established itself as a monolithic, monopolistic political force in the world's most populous nation. Today, the CCP reinforces its rule through a network of 83 million registered Party members, making it the largest—and arguable the most powerful—political party in the world. In fact, if these Party members established their own country, they would form the world's 16<sup>th</sup> largest nation, ahead of Germany, Turkey, and Iran (see Figure 1).

**Figure 1.** 20 Largest countries by population (CCP comparison)



*Source:* CIA World Factbook. "Country Comparison: Population." Central Intelligence Agency. July 2012. <https://www.cia.gov/library/publications/the-worldfactbook/rankorder/2119rank.html> (accessed March 1, 2013).

The modern CCP hardly resembles the CCP of 1949. Professionals who work in business and public institutions now outnumber farmers and workers—once considered

the backbone of the Party.<sup>3</sup> Today Party members graduate at the top of their high school and university classes. Entrepreneurs and private businessmen, once forbidden, join in large numbers. And in what was once a male-dominated, ethnic majority-ruled CCP, women and minorities are increasingly represented among its ranks.

As Party members become increasingly educated and diversified, their numbers have grown exponentially (see Figure 2). The CCP was founded with about 50 members in 1921, and grew to 4.5 million members at the PRC's founding in 1949.<sup>4</sup> This number exceeded 83 million when the 18<sup>th</sup> Party Congress convened in 2012. These statistics fail to reflect the millions who apply for membership unsuccessfully. Of the 21 million applications received in 2010, the CCP only accepted 3 million new members that year.<sup>5</sup>

To grow from 50 members to over 83 million, the CCP had to add over 9 million members per decade, or about 1 million new members per year. And of the 3 million recruited in 2010, 40 percent were college students.<sup>6</sup> But what drives Chinese to apply in droves to the Chinese Communist Party?

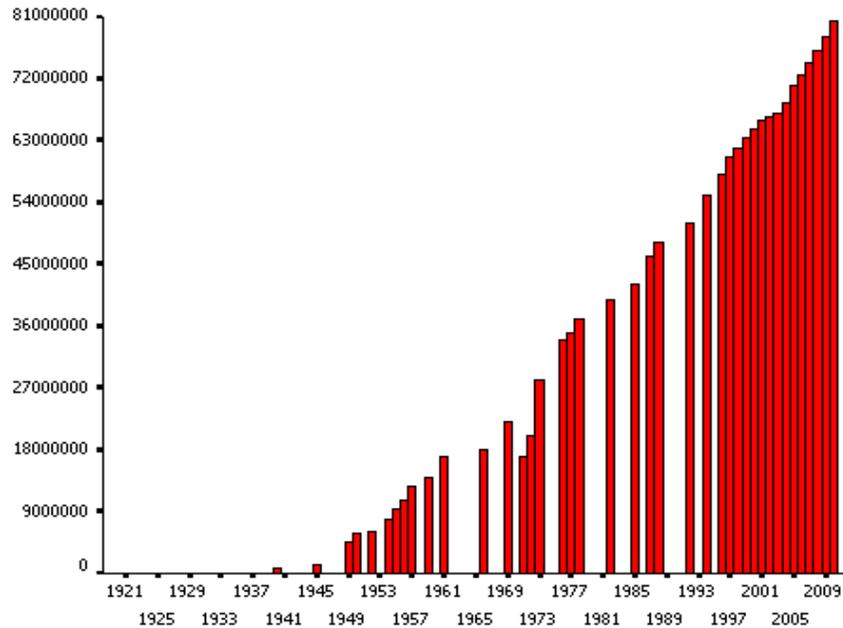
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<sup>3</sup>Jamil Anderlini, Patti Waldmeir, Kathrin Hile and Simon Rabinovitch, "Welcome to the party!" *The Financial Times*, September 28, 2012, accessed February 1, 2013, <http://www.ft.com/intl/cms/s/2/83780b3c-0830-11e2-a2d8-00144feabdc0.html#slide0>.

<sup>4</sup>Damien Ma, "90 Years of the Chinese Communist Party," *The Atlantic*, July 1, 2011, accessed March 1, 2013, <http://www.theatlantic.com/international/archive/2011/07/90-years-of-the-chinese-communist-party/241055/>.

<sup>5</sup>Ma, "90 Years".

<sup>6</sup>Ibid.



**Figure 2.** Chinese Communist Party membership

Source: Gang Guo, “Political Recruitment: The Rise of the Technocrats,” (presentation, University of Mississippi, University, MS, Fall 2012).

For these young recruits, the question is not “why join?” but “why not?” “The party is the largest patronage organization in human history,” says Kenneth Lieberthal, director of the John L. Thornton China Center at the Brookings Institution. “In urban China, every significant position of authority, not only in the government but in state-owned enterprises, schools, hospitals, think-tanks, the media, you name it, is filled by a decision of the party and for a significant number of those positions, membership is a requirement.”<sup>7</sup> While downsides are hard to see, potential gains are compelling.

*Identifying the Benefits in Contemporary China*

To understand the benefits of Party membership in modern China, we must first understand how the small revolutionary party of 1949 evolved into the monolithic, bureaucratic CCP of today. The Party member who most benefited from his or her Party

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<sup>7</sup> Anderlini et. al., “Welcome to the party!”.

membership under Mao came from a much different background than the Party member who was most successful under reforms. To best understand how the evolution of the CCP influenced membership benefits in Contemporary China, I first address how fluctuating goals of the Chinese Communist Party impacted its recruitment policies from 1949 to present.

But who the Party recruits and why those recruits join requires the consideration of the socioeconomic environment in which the Party operates. How exactly CCP membership translated into tangible benefits was largely determined by the amount of power and influence the Communist Party exercised in the Chinese economy. Because this influence has been anything but static, I then illustrate the rise and fall of CCP involvement in the Chinese economy.

Is Party membership beneficial only in the modern Chinese state sector? Does Party membership have benefits in the new private sector? Do only certain positions of managerial authority benefit from membership? Only after properly addressing these two narratives, the evolving Chinese Communist Party and evolving Chinese economy, can the real source of Party membership benefits be adequately addressed.

### **The Evolving Chinese Communist Party: A Historical Contextualization**

In the sixty years since the Communist Party rose to power, Party goals and recruitment policies have been anything but static. After establishing the PRC in 1949, the Chinese Communist Party continued its transition from a small revolutionary party to a large, bureaucratic ruling party. But these transformations did not occur seamlessly.

*Fluctuating Goals of the CCP under Mao*

As it transitioned, the CCP faced the immense challenge of preserving its ideological foundation while pursuing economic reform. This struggle was not unique to the Chinese communist regime. In the late twentieth century, many communist regimes struggled to pursue both the social agenda outlined by Marxist-Leninist ideology and the economic production necessary to compete in increasingly competitive global markets.<sup>8</sup> These competing goals resulted in distinct fluctuations in Communist Party rhetoric over time. When goals of building a communist utopia were emphasized, the ruling party intensified efforts to strengthen the command economy and persecute capitalist class enemies. As the pendulum of party policy swung towards economic development, the party downplayed ideological class struggle and redirected efforts to encourage market productivity.

These competing goals of economic modernization and ideological fulfillment fueled the drastic shifts in Party rhetoric in Maoist China. When the Chinese Communist Party took control of Beijing in the spring of 1949, it inherited a nation ravaged by war and social unrest. By necessity, construction of the ideal socialist state was put on hold and economic reconstruction shifted to the forefront of CCP policy. From 1949 to 1952, the new government cooperated with urban intellectuals, bureaucrats, and administrators of the old regime to aid this national reconstruction effort, even though their class status did not fit in with the Communist model.

However, by late 1951 internal disputes arose over how to best build a socialist state while pursuing economic modernization. Once significant political and economic stability had been achieved, the Party began to diminish its reliance on the politically

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<sup>8</sup> Bruce J. Dickson, *Red Capitalists in China: The Party, Private Entrepreneurs, and Prospects for Political Change* (New York: Cambridge University Press, 2003): 7.

“unreliable” urban intellectual elite. Three campaigns of political reeducation and repression—including the “Three Anti” (*Sanfan*) and “Five Anti” (*Wufan*) campaigns—sought to reform the intellectual bureaucratic elite.<sup>9</sup> With civil administrations, the economy, and educational institutions purged of unreliable intellectuals, the result was a Chinese government with power increasingly consolidated within the Chinese Communist Party.

Despite attempts to reeducate the intellectual classes, Mao became uncomfortable with the vast bureaucracy that became increasingly alienated from society. In a period that came to be known as the Hundred Flowers Campaign, Mao encouraged critique of the shortcomings of the Soviet-inspired economic system in place. In 1958 Mao abandoned the Soviet model of economic development in favor of a plan championed by Party hardliners, and China “embarked on a distinctively Chinese road to socialism.”<sup>10</sup>

During the Great Leap Forward (1958-1960) that followed, Mao implemented an economic plan that sought to increase economic output by rapidly collectivizing agriculture and industry, and reorganizing citizens into People’s communes. The plan was an economic disaster. Faced with devastating famines and plummeting productivity, Party moderates called for immediate reconsideration of Mao’s broken economic policies. This internal unrest drove a wedge between more moderate factions and Party hardliners, who felt increasingly threatened by reform-minded members. These tensions culminated in the Great Proletarian Cultural Revolution (1966-1976). Silently encouraged by Mao and his radical supporters, this movement marked a renewed commitment to communist ideology and “class struggle” rhetoric that lasted until Mao’s death in 1976.

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<sup>9</sup> Maurice Meisner, *Mao’s China and After: A History of the People’s Republic* (New York: The Free Press, 1999): 85.

<sup>10</sup> Meisner, *Mao’s China and After*, 188.

### *Fluctuating CCP Recruitment under Mao*

Like other Leninist regimes, the fluctuation between ideology-oriented policy and development-oriented policy strongly impacted the recruitment policies of the Chinese Communist Party. When ideological fervor was in vogue, the Party emphasized an applicant's ideological qualities and loyalty to the Party over technical expertise.<sup>11</sup>

In Maoist China the CCP became highly selective of its new members, and these recruitment requirements evolved with Party policies. Though a distinct level of expertise was needed to effectively operate the vast state sector, Mao remained incredibly distrustful of China's intellectual classes.

The quality and quantity of Party recruits fluctuated with these changes in policy. During the peak years of the Cultural Revolution (1966-1970), the supply of educated recruits suffered as the Chinese educational system was greatly disrupted. Enrollment in colleges and universities plummeted from 533,766 to 48,000 as young people were sent to the countryside or joined the Red Guard.<sup>12</sup> During this period of social upheaval the Party downplayed educational and occupational credentials of applicants, resulting in a surge of uneducated recruits.<sup>13</sup>

After Mao's death in 1976, Party leaders came to the realization that the longevity of communist rule hinged on the Party's ability to reform. In 1978 the Communist Party officially concluded the period of class struggle, and Party rhetoric again shifted to economic prosperity.

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<sup>11</sup> Dickson, *Red Capitalists in China*, 30.

<sup>12</sup> Gang Guo, "Party Recruitment of College Students in China," *Journal of Contemporary China* 14 (2005): 374.

<sup>13</sup> Dickson, *Red Capitalists in China*, 31.

### *CCP Goals and Recruitment During Reforms*

The “reform and open up” policies championed by Deng Xiaoping drastically altered the Party’s recruitment practices. The personnel needed to implement economic reforms differed greatly from those required to pursue Maoist ideological campaigns. Older Party members recruited for their mass mobilization and propaganda skills were encouraged to retire from active Party life, while new applicants with entrepreneurial skills and technical expertise were accepted in larger numbers.

The percentage of Party members with high school and college educations grew sharply in a few short years, and a college degree became a vital component to success within the Party hierarchy itself. From the early 1980s on, the proportion of Party Congress delegates and Central Committee members with college degrees steadily increased, a trend that has continued into the twenty-first century (see Table 1).

However, these changes were not implemented without consequences. The brutal repression of protests at Tiananmen Square in 1989 served as a reminder that despite modernization, the CCP remained committed to preserving its one-party rule. As it was revealed that many protest participants were Party members themselves, conservative Party leaders were quick to question the political reliability of recent technocratic recruits. A backlash against educated professionals in the Party ensued, and officials once again focused recruitment efforts on those deemed ideologically fit for membership. The result was a temporary drop in total percentage of the intellectuals recruited to the Party.

**Table 1.** Party elites with college degrees

<b>Year</b>	<b>Party Congress</b>	<b>% Delegates with college degree</b>	<b>% Central Committee members with college degree</b>
1987	13 <sup>th</sup>	59.5%	73.3%
1992	14 <sup>th</sup>	70.7%	83.4%
1997	15 <sup>th</sup>	83.5%	92.4%
2002	16 <sup>th</sup>	91.9%	98.6%

*Source:* Gang Guo, “Political Recruitment: The Rise of the Technocrats,” (presentation, University of Mississippi, University, MS, Fall 2012).

In a 1989 speech General Secretary Jiang Zemin stated, “We must make sure that the leading authority of party and state organs is in the hands of loyal Marxists.”<sup>14</sup>

Though the proportion of Party members with college degrees rose steadily in the 1980s, the proportion of Party members among college students had reached historic lows (less than 1%).<sup>15</sup> In response, the CCP refocused efforts to recruit the most academically and ideologically qualified college students.

New recruitment policies proved effective. When the 15<sup>th</sup> Party Congress commenced in 1997, the percentage of party members with a senior high school education or better was 43.4 percent, up from 12.8 percent in 1978, and 92 percent had some form of college education.<sup>16</sup> By the turn of the twenty-first century, the Chinese Communist Party scarcely resembled the ideology-driven party of Mao Zedong.

#### *The New Party Profile*

By 2002 the Chinese Communist Party had grown to 66.355 million members, but still only accounted for 5.17% of the total Chinese population. With Party members increasingly educated, new Party recruiting guidelines and extensive economic reforms did little to alter the popular conception that Party members enjoyed special benefits and opportunities not available to nonmembers.

<sup>14</sup> *Xinhua*, December 29, 1989, in Dickson, *Red Capitalists in China*, 35.

<sup>15</sup> Guo, “Party Recruitment,” 378.

<sup>16</sup> Dickson, *Red Capitalists in China*, 33.

Analysis of the 2002 Chinese Household Income Project survey data (described in more detail in later chapters) supports this popular conception that the CCP members are far from representative of greater Chinese society (see Table 2). Members are often male, older, more educated, and better employed than nonmembers. According to the sample recorded in the 2002 CHIP survey, the average (mean) Party member in 2002 was a 49-year-old male with 11.7 years of education, and earned an annual income of 13,755 *yuan* while employed as a director. The typical non-Party member was a 37.6-year-old female with 9.5 years of education, and earned an annual income of 9,581 *yuan* while working as a skilled worker.

Of the CCP members polled in the 2002 CHIP survey, 65% were male and best represented in the older age brackets. In contrast, nonmembers were often female and notably younger. It is widely accepted that Party members are some of the most educated cross-sections of Chinese society. Though Party members accounted for only 5.17% of the total population in 2002, the 2002 CHIP sample reported 44% of college graduates and almost 65% of graduate school graduates carried Party cards. The share of Party members was lowest in category for “no schooling”, and rose for every increase in educational level (with exception of the “elementary” category). These results suggest that new CCP recruitment goals to develop an educated elite have been extremely successful.

Supporting the conventional wisdom that Party members enjoy access to the best jobs, the CHIP survey sample reports comparatively high percentages of Party members in director, professional, and office staff positions. Less prestigious and more labor-intensive jobs of skilled, unskilled, and service sector workers had comparatively low

percentages of Party members. China's massive state sector remained the largest employer in urban China of both Party members and nonmembers. However, Party members were comparatively more heavily concentrated in the state sector than nonmembers.

From the table below it may be concluded that Party members continue to be more highly educated, highly compensated, and well employed than the average nonmember. Understanding from where these benefits are derived requires consideration of the economic transformations that allowed Party members to get ahead.

**Table 2.** Profile of Chinese Communist Party members in urban China  
(numbers in cells are percentages)

	Within-Group Comparisons (rows sum to 100)		Within-Group Comparisons (columns sum to 100)	
	Non-CCP	CCP	Non-CCP	CCP
<b>Gender</b>				
<b>Male</b>	69.7	30.3	45.0	65.0
<b>Female</b>	84.0	16.0	55.0	35.0
<b>Age</b>				
<b>18-20</b>	93.3	6.7	18.5	4.4
<b>31-40</b>	76.7	23.3	21.0	21.2
<b>41-50</b>	71.5	28.5	23.3	30.9
<b>51-60</b>	61.8	38.2	12.3	25.3
<b>&gt;60</b>	63.8	36.2	9.4	17.8
<b>Education*</b>				
<b>No schooling</b>	98.2	1.8	3.4	.2
<b>Literacy</b>	84.3	15.7	.6	.4
<b>Schooling</b>				
<b>Elementary</b>	90.7	9.3	12.3	4.2
<b>Middle</b>	84.3	15.7	30.4	18.7
<b>High</b>	81.6	18.4	26.5	19.8
<b>Technical school</b>	69.0	31.0	9.3	13.9
<b>Junior college</b>	58.8	41.2	11.8	27.3
<b>College/university</b>	56.0	44.0	5.5	14.3
<b>Graduate</b>	35.3	64.7	.2	1.3
<b>Occupation</b>				
<b>Owner</b>	91.5	8.5	6.0	1.4
<b>Professional</b>	66.8	33.2	19.8	24.2
<b>Director</b>	23.2	76.8	3.5	28.0
<b>Office staff</b>	61.8	38.2	17.6	26.7
<b>Skilled worker</b>	84.0	16.0	22.2	10.4
<b>Unskilled worker</b>	90.5	9.5	12.4	3.2
<b>Service worker</b>	89.8	10.2	15.8	4.4
<b>Employment Sector</b>				
<b>Public</b>	70.3	29.7	77.8	86.9
<b>Collective</b>	81.4	18.6	16.4	9.9
<b>Private</b>	92.9	7.1	1.9	.4

\*Highest level of education achieved.

“Other” categories for Occupation and Employment Sector omitted from this table.

*Data Source:* Shi, Li. Chinese Household Income Project, 2002.

## **Chinese Economy Under Reforms: A Historical Contextualization**

Assessing the influence of Communist Party membership in a modern China requires an understanding of the socioeconomic environment in which Party membership operates. In the sixty years since the Communist Party rose to power, this environment has been anything but static.

The refocusing of China's economy from agriculture to industry began under the direction of Mao Zedong and the Chinese Communist Party. Existing economic institutions were brought under Party and state control, and most Chinese citizens were employed under the umbrella of the state. Following Mao's death, the "reform and open up" (*gaige kaifang*) policies championed by Deng Xiaoping drastically altered this economic landscape. Deng and his contemporaries recognized the failures in Mao's attempts to industrialize, and sought to correct these deficiencies. Their answer was a new Chinese economy driven by an efficient industrial sector and growing service industry, coupled with decreased state oversight. The introduction of private enterprises and foreign investment created employment opportunities outside of the once monolithic state sector for the first time in decades.

Properly assessing how Party membership operates in modern China requires consideration of how Chinese economic structures evolved from the establishment of the People's Republic to present day.

### **The Maoist Period (1949-1978)**

After 22 years of armed conflict with the Nationalists (Kuomintang), the Chinese Communist Party took control of Beijing in the spring of 1949. By 1949 the Kuomintang forces had retreated to Taiwan, leaving CCP leader Mao Zedong with full autonomy to

actualize his vision of a communist China. The Chinese Communist Party and governmental institutions merged, creating a party-state that ensured Mao's Party would have a hand in almost every major decision in Chinese society.

In the first three years of Chinese Communist Party rule, China's social structure experienced more changes than it had in the previous 2000 years.<sup>17</sup> In the early years, certain aspects of capitalism were tolerated in an attempt to revive China's war-torn economy, and the number of privately owned enterprises expanded between 1949 and 1953.<sup>18</sup> But in the private enterprises that were permitted to exist, the Party established trade unions and workers groups to enforce new state policies and regulations. The period of "state capitalism" reached its height by the end of 1952, and declined rapidly thereafter.<sup>19</sup>

The new state further placed itself at the center of economic affairs by adopting a Soviet-style command economy outlined in its First Five Year Plan (1953-1957). Resources and production were distributed through central party-state institutions under the assumption that the industrialization would be best pursued under a strong socialist state.<sup>20</sup> Large industries were brought under total state control, agriculture was collectivized, and existing enterprises were confiscated and nationalized. By 1956 the urban private sector "ceased to exist, and all industrial and commercial enterprises of any significant size had been effectively nationalized."<sup>21</sup> The foundation had been laid for what would become a monolithic state sector with a main goal of giving all urban citizens secure employment under the "iron rice bowl."

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<sup>17</sup> Meisner, *Mao's China and After*, 103.

<sup>18</sup> *Ibid* 84.

<sup>19</sup> *Ibid* 84.

<sup>20</sup> *Ibid* 103.

<sup>21</sup> *Ibid* 85.

This trajectory of industrialization was again proposed in the Second Five Year Plan (1958-1962), but was called into question as Marxists once again gained the upper hand in Party politics. The Great Leap Forward (1958-1960) shifted industrialization from urban areas to the countryside, a move that reinforced Party ideology but proved disastrous for economic progress as a whole. After the plan outlined under the Great Leap Forward was abandoned, industrialization efforts were again focused on urban China.<sup>22</sup>

*Restructuring of the Chinese Economy in Urban China*

In urban China, the CCP placed the work-unit (*danwei*) at the center of Chinese society, effectively merging public and private life.<sup>23</sup> Where in the past Chinese relied on family networks, during the Maoist era the workplace became the steward and allocator of all life's necessities. Work units provided schools, hospitals, daycare, cafeterias, groceries, housing, and other fundamental services.

Many urban Chinese were assigned their *danwei* in one of China's many state owned enterprises (SOEs). After the Chinese Communist Party rose to power in 1949, the government nationalized the industrial economy, taking control of previous state owned companies, foreign firms, and other private enterprises. By 1978, over 84,000 SOEs were listed in the Chinese economy.<sup>24</sup> These state-run institutions during the Maoist era enjoyed only little autonomy under a system of "independent operational authority."<sup>25</sup> The vast majority of business operations, such as production, purchasing, wages, and promotions were dictated by the central government. The same excessive government

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<sup>22</sup> Ibid 265.

<sup>23</sup> Linda Chao and Ramon H. Myers, "China's consumer revolution: The 1990s and beyond," *Journal of Contemporary China* 7 (1998): 357.

<sup>24</sup> Lance L. P. Gore, *Market Communism: The Institutional Foundation of China's Post-Mao Hyper-Growth* (New York: Oxford University Press, 1998): 62.

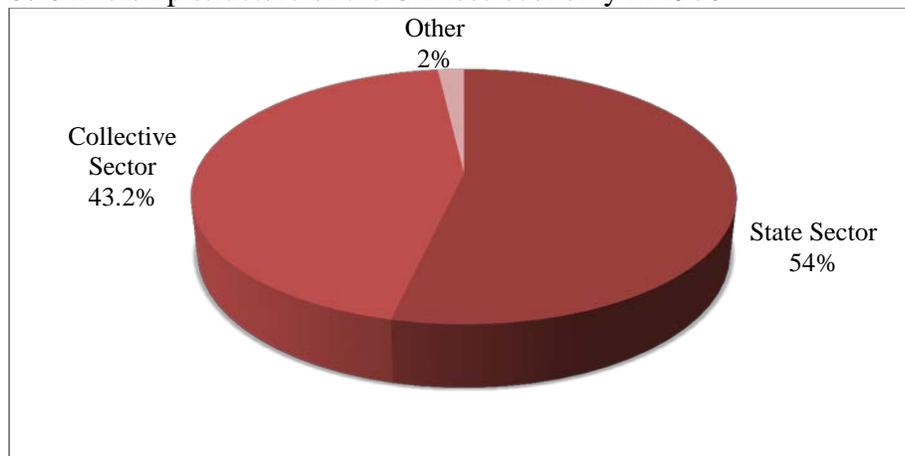
<sup>25</sup> Meisner, *Mao's China and After*, 265.

control that produced remarkably inefficient enterprises, however, provided ironclad employment to millions of workers.

Though SOEs commanded a large portion of Maoist economy, these enterprises could not employ all urban Chinese. The party-state thus created a second category of ownership in addition to state ownership: ownership by the people. This made room for the establishment of small-scale enterprises alongside larger state-owned enterprises, dubbed “collectives”. Collectives sought to both “relieve employment pressure and incorporate the non-state-owned parts of the economy into the orbit of the state”.<sup>26</sup>

By 1978, the state sector accounted for 55 percent of total GNP, the collective sector 43.2 percent, and the rest for only 1.8 percent (see Figure 3).<sup>27</sup> With almost the entire Chinese economy under state control, most Chinese citizens were thus employed in an institution under the state umbrella.

**Figure 3.** Ownership structure of the Chinese economy in 1978



Source: Gore, *Market Communism*, 62.

But all was not equal. Workers employed in prosperous work-units enjoyed access to the best resources. A hierarchy of benefits and quality of life proved so visible,

<sup>26</sup> Gore, *Market Communism*, 63.

<sup>27</sup> *Ibid*, 62.

certain work units became more desirable. The impact of *danwei* on Chinese social status became so pervasive that the question “Which *danwei* do you belong to?” became a common greeting.<sup>28</sup> The most comprehensive social safety nets were located in government and SOE work-units. Collective workers did not enjoy the same comprehensive benefits, creating what was essentially a second-class society in urban China.

### *Impact of Party Membership*

Because the CCP placed the work-unit (*danwei*) at the center of urban Chinese society, the Party became the gatekeeper for all economic activity. By designing a system where most welfare resources were allocated through the workplace, Chinese citizens were left dependent on their work-unit—and by extension— on the Party itself. State-owned enterprises were closely tied to governmental and party supervising agencies, which typically appointed Party members to management positions.<sup>29</sup> The cadres of urban collectives were likewise appointed by the governmental agencies, and were thus more likely to be Party members.<sup>30</sup>

While this vertically integrated structure preserved CCP hegemony, it also meant Party membership became the primary avenue of career mobility. A Party card improved one’s chances of moving to a more prestigious *danwei*, landing a promotion, and obtaining social prestige. During the Maoist era, Party membership had clear benefits.

### **“Reform and Open Up”: China Under Economic Reforms (1978-present)**

After Mao Zedong died in 1976, the Communist Party and its party-state faced a legitimacy crisis. Mao’s promises of building a prosperous socialist society did not come

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<sup>28</sup> Tony Saich, *Governance and Politics of China* (New York: Palgrave, 2001): 199.

<sup>29</sup> Gore, *Market Communism*, 94.

<sup>30</sup> Saich, *Governance*, 198.

to fruition. Though significant efforts had been made to provide most Chinese citizens with employment, living standards remained at 1950's levels.<sup>31</sup> As famines and years of stagnant economic growth threatened to incite social unrest, the Party could no longer rely on Maoist ideology alone to underpin its legitimacy. If the CCP was to maintain control over Chinese society, changes had to be made, and they had to be made fast.

In December of 1978, the CCP Central Committee convened their Third Plenary Session. From this meeting Deng Xiaoping emerged with his "reform and open up" policy, marking the beginning of monumental economic change in China. Deng announced the end of class struggle, and instead shifted Party rhetoric to the pursuit of economic prosperity. These unprecedented economic reforms drastically transformed the socioeconomic environment in which Party membership operates in Chinese society.

### **The Early Reform Period (1978-1992)**

The impact of the first stage of economic reforms (1978-1984) in urban China was comparatively small. After eliminating Cultural Revolution rhetoric from the Party platform, leaders focused on decollectivizing China's grossly underperforming agricultural sector. The Party introduced only slight reforms to the state-owned and collective enterprises. Although these reforms gradually increased enterprise autonomy in price and wage determination, they did little to impact total employment figures in China's state sector. Table 3 shows that in 1980, before significant reforms took effect in urban China, the number of workers employed outside the state or collective sectors was negligible.

The Party began experimenting with private sector expansion in the early 1980s, permitting select entrepreneurs to start small scale private businesses. Private vendors and

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<sup>31</sup> Ibid, 219.

peddlers returned to urban streets selling wares and foods, new retail and service businesses appeared selling clothing and cosmetic services. Party encouragement of these small enterprises proved monumental, as Chinese no longer had to depend on inefficient and undersupplied government stores.<sup>32</sup> Nonetheless, these initial reforms produced modest shifts in the ownership structure of China as the private sector remained comparatively small.

Deng’s “Open Door Policy” established special economic zones and attracted foreign investment into China for the first time in decades. The acceptance of foreign capital became an integral part of China’s “integration into the world capitalist market,” and foreshadowed the drastic changes to China’s employment structure that followed.<sup>33</sup>

**Table 3.** Changing employment structure in urban China, 1980-2002 (millions)

	<b>1980</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2002</b>
<b>Total</b>	<b>105.3</b>	<b>170.4</b>	<b>190.4</b>	<b>231.5</b>	<b>247.8</b>
<b>State</b>	80.2	103.5	112.6	81.0	71.6
<b>SOEs*</b>	67.0	73.0	76.4	43.9	35.3
<b>Collective</b>	24.3	35.5	31.5	15.0	11.2
<b>Joint-owned</b>	0	1.0	3.7	13.4	18.3
<b>Foreign</b>	0	0.7	5.1	6.4	7.6
<b>Private</b>	0	6.7	20.6	34.0	42.7
<b>Residual</b>	0	23.1	16.9	81.6	96.4

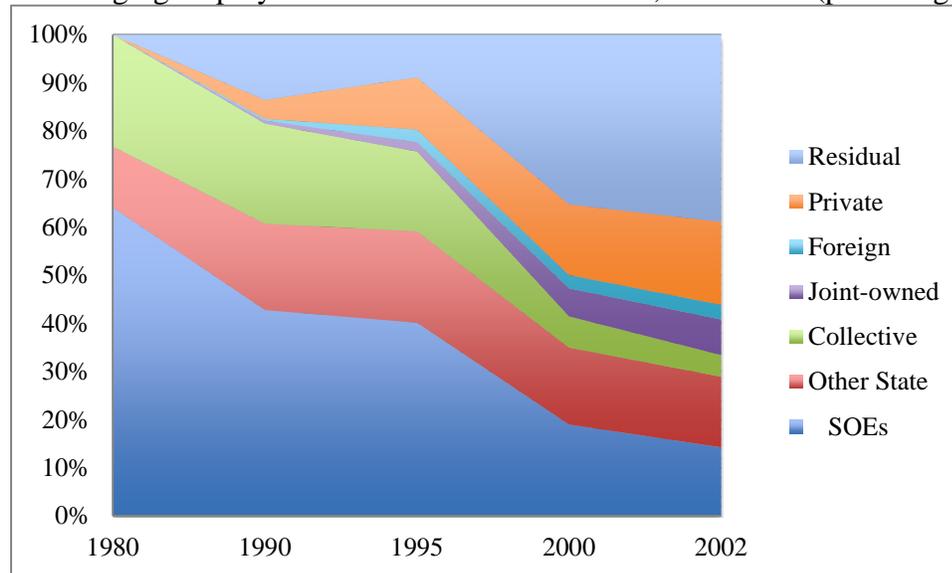
\*SOEs included in the State category

Source: David Harvey, *A Brief History of Neoliberalism*, Table 5.2.

<sup>32</sup> Meisner, *Mao’s China and After*, 456.

<sup>33</sup> *Ibid* 457.

**Figure 4.** Changing employment structure in urban China, 1980-2002 (percentages)



Source: David Harvey, *A Brief History of Neoliberalism*, Table 5.2.

The second stage of economic reforms (1984-1992) was designed to subject state-owned enterprises and collective firms to a more “fully marketized” environment. In 1984 the CCP Central Committee published the “Decision on Reform of the Economic Structure”.<sup>34</sup> This program pursued three main goals in the urban industrial sector. First was formal encouragement of enterprise profitability, accomplished by giving 400,000 state-owned enterprises wage, price, and investment autonomy. Second was an effort to “smash the iron rice bowl” and decrease the job security and benefits of state sector employees. Third was an extensive price reform that proved beneficial to business but chaotic to everyday Chinese.<sup>35</sup> Employment in the state sector no longer guaranteed success or stability.

A 1986 measure introduced a new system of employment based upon limited term contracts destroyed any hopes of protecting the “iron rice bowl” in a modernizing China.

<sup>34</sup> Saich, *Governance*, 57.

<sup>35</sup> Meisner, *Mao’s China and After*, 473.

In an effort to spur productivity, new reforms passed in 1988 granted managers of state-owned enterprises access to any excess profits.<sup>36</sup>

### *Government Oversight in the State Sector*

The state sector in the early reform period was still subject to strict government controls. As the Chinese government grappled with inflation, unemployment, and budget deficits that the initial stages of economic reforms had produced, it responded with a strict economic policy dubbed “readjustment”.<sup>37</sup> This policy in effect reestablished a command economy in China’s urban industrial sector, with strict controls on wages, investments, prices, and resource allocation. SOEs were viewed as too vital to the Chinese economy to completely remove from Party oversight. Party members and their decisions thus remained influential despite nominal reforms to wage and price controls.

During the early reform era, China’s collective enterprises became an increasingly dynamic part of the employment sector. Although collectives were technically owned by local governments, their daily operations increasingly resembled those of private enterprises. Government oversight was “less formal and less institutionalized” than in other sectors, allowing collective enterprises an adaptability to market fluctuations denied to their state-owned cousins.<sup>38</sup> As reforms continued, collective enterprises became increasingly removed from the state umbrella. The

### *Private Sector Beginnings*

Deng’s “reform and open up policies” initially allowed rural Chinese households to explore private entrepreneurship to increase their income in small factories, services,

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<sup>36</sup> Kevin Siqueira, Todd Sandler, and Jon Cauley, “Common agency and state-owned enterprise reform,” *China Economic Review* 20 (2009): 208.

<sup>37</sup> Meisner, *Mao’s China and After*, 471.

<sup>38</sup> Gore, *Market Communism*, 140.

and manufacturing. This first entrepreneurial class was largely restricted to small individual businessmen (*getihu*) relying on small trade transactions.<sup>39</sup> Party leaders and their associated policy remained dubious as to what role these new private businesses would play in a modernizing Communist China. The scope of China's new private enterprises did not expand until official sanctions limiting the size of private firms were lifted in 1984, and private firms were not recognized as a legitimate part of the Chinese economy until 1987.<sup>40</sup>

Despite governmental regulations designed to restrict the growth of private enterprise, reforms began producing modest shifts in the ownership structure of urban China. By 1990, over 30 million urban Chinese workers found employment outside of the state sector, with a sizable portion employed in private enterprises (see Table 3).

### **Continued Reforms (1992-2002)**

In the early months of 1992, Deng Xiaoping embarked on his fabled "southern tour" of China. The speeches he made during this trip praised the growing Chinese private sector and international cooperation, foreshadowing new shifts in official economic policy championed by the Chinese Communist Party.

When the 14<sup>th</sup> Party Congress convened later that year, the CCP officially retired the planned economic model and proclaimed the establishment of China's new "socialist market economy."<sup>41</sup> In the decade following this decision, the Chinese economy saw unprecedented changes in ownership structure. The official abandonment of the Soviet-style planned economy slowly dismantled the state institutions on which the "iron rice

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<sup>39</sup> Zhaohui Hong, "Mapping the Evolution and Transformation of the New Private Entrepreneurs in China," *Journal of Chinese Political Science* 9 (Spring 2004): 25.

<sup>40</sup> Chai, *China: Transition to a Market Economy*, 177.

<sup>41</sup> Chai, *China: Transition to a Market Economy*, 6.

bowl” and its benefits depended. Many state-owned enterprises privatized. In those that did not, managers gained the autonomy to hire and fire workers and determine wage and bonus structure. The “iron rice bowl” guarantee of employment had been eradicated. On the other hand, individuals could obtain, quit, and change jobs on their own initiative, and employment opportunities in the private, foreign, and joint-venture firms increased dramatically. These continued reforms to China’s economic landscape again altered the socioeconomic environment in which Party membership operates in Chinese society.

#### *Decline of State-Owned Enterprises*

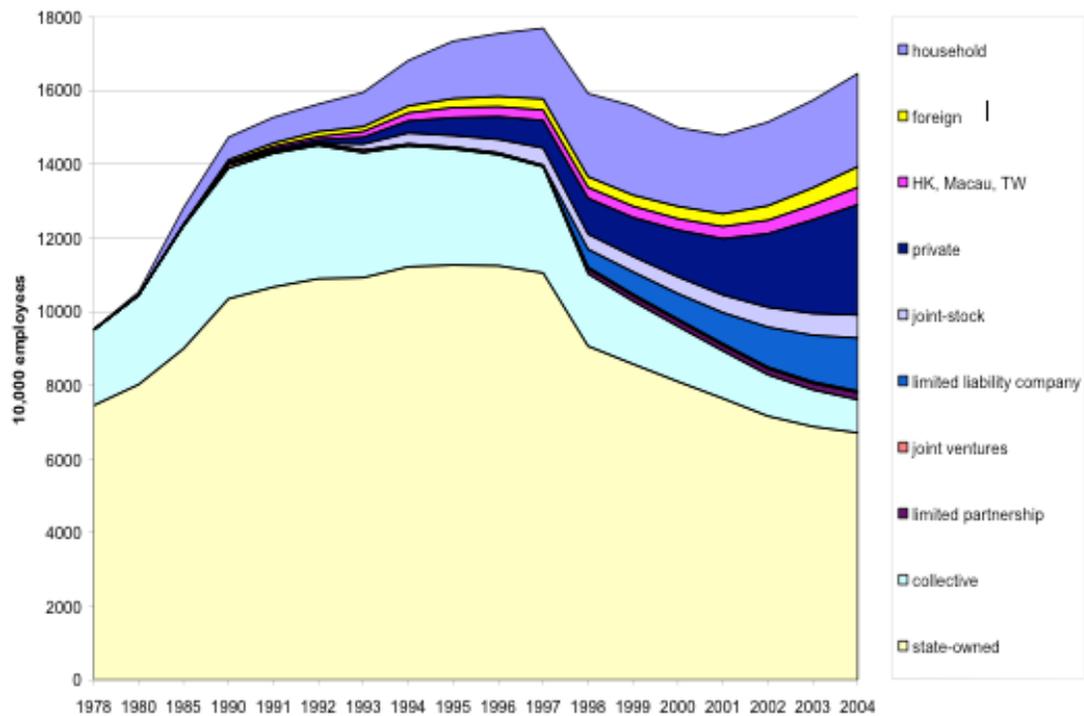
As reforms continued into the 1990s, state-owned enterprises were increasingly criticized for being a constant drag on economic efficiency. The generous social welfare packaged guaranteed to SOE employees and retirees became a point of contention, bankrupting many enterprises and forcing the state to make up the difference. By the mid 1990s state-owned units consumed 52 percent of the nation’s fixed-asset investment and 80 percent of the total credits but produced only 34 percent of total industrial output, and over half were running at a loss.<sup>42</sup>

When the 15<sup>th</sup> Party Congress convened in 1997, the Party announced plans to sell or privatize the majority of China’s state-owned enterprises. Though the ownership of larger systemic SOEs were maintained by the state, most small or mid-scale enterprises were released from government control. Massive layoffs ensued, leaving a large portion of the Chinese workforce unemployed. The sharp drop in employment is demonstrated in Figure 5 below.

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<sup>42</sup> Gore, *Market Communism*, 134.

**Figure 5.** Urban employment (1978-2004)



Source: Gang Guo, “Party Recruitment of Students in China: Past and Present,” (presentation, University of Mississippi, University, MS, Fall 2012).

### *Deregulation and Private Sector Expansion*

The Party’s official incorporation of private entrepreneurship into a “socialist market economy” expanded opportunities in China’s growing public sector. Private enterprises founded before 1992 experienced a sharp acceleration in growth as a result of easing restrictions and newfound government support.<sup>43</sup> The slow disintegration of the “iron rice bowl” in the public sector encouraged more Chinese to leave their work units and enter the private sector, a trend later dubbed ‘jumping into the sea’ (*xiahai*).

Although the average worker suffered from SOE reform and privatization, many gained. Some former managers obtained large shares of the newly private companies, “essentially inheriting ready-made companies.”<sup>44</sup> In other cases new entrepreneurs

<sup>43</sup> Chai, *China: Transition to a Market Economy*, 178.

<sup>44</sup> Hong, “New Private Entrepreneurs in China,” 29.

purchased the newly private enterprises, many of which would become profitable in a few years time.

### **The Question**

The fluctuating goals of the Chinese Communist Party impacted its recruitment policies from 1949 to the present. But whom the Party recruits and why those recruits join required the consideration of the socioeconomic environment in which the Party operates. Now that both the development histories of the CCP and the Chinese economy have been placed in their historical context, the final question can be asked: Why are Chinese still compelled to join what many experts view as an outdated, aging Communist Party?

## **Chapter 2: Theoretical Framework**

The total implementation of economic modernizations required the CCP to loosen control over both the economy and Chinese society. In 1978 the Communist Party officially concluded the period of class struggle, and Party goals shifted away from red ideology to economic development. In pursuing economic prosperity, the Party gradually relinquished its total control over enterprises in the state and private sectors, no longer controlling wages, prices, or internal hiring and firing processes.

Given the declining influence of the party-dominated central government in everyday economic affairs, China-watchers began wondering what influence the CCP holds in contemporary Chinese society. But defying these skeptics, Party membership has maintained steady growth. The question remains: does Party membership still bring with it material benefits not available to nonmembers in contemporary China? If so, where do these privileges originate?

This theoretical framework postulates how exactly a member of the Chinese Communist Party maximizes the material benefits of his or her Party membership. While Party membership itself may translate into material gain, its true value in contemporary China may arise from a combination with other factors. A Party member with a college education may expect to receive more benefits from his Party card than his or her counterparts with high school degrees. In the state sector, Party membership may equate to promotions off-limits to nonmembers. And in the private sector, a Party member may leverage political connections or Party networks to his or her advantage. The following chapter explores the possible mechanisms that allow Chinese Communist Party membership to translate into benefits in contemporary China.

## **Benefits of Party Membership**

Numerous scholars have concluded that membership in the Chinese Communist Party, when considered alone, continues to translate into material benefits.<sup>45</sup> However, obtaining a Party card does not automatically accrue promotions or raises. Party membership must instead operate within existing economic structures to translate into actual benefits. The advantageous political connections and personal development opportunities gained from Party membership may both play a part in producing tangible benefits to members.

### *The Advantage of Political Connections*

Party members found more opportunities to capitalize on properly placed political connections as China's economy modernized in the 1980s and 1990s. As enterprises were granted increasing powers in controlling wages, promotions, hiring, firing, etc., inequality became an accepted part of Chinese society. This change in societal norms "made it easier for Party members to convert their political power into economic power."<sup>46</sup> Party leaders in positions of power were able to allocate more benefits to themselves and other members in the form of promotions and wages, without fear of public outcry or backlash.

Some scholars maintain that family connections amplify the political connections attributed to Party membership. It is conceivable that the apparent benefits of Party membership could simply reflect a family's stable socioeconomic background and advantageous political connection. Simply stated, a child of a Party member may have a higher likelihood of joining the Party due to a stable upbringing and exposure. This seems likely, as the connection between the membership status of one's parents and a

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<sup>45</sup> Dickson and Rublee (2000); Yueh (2004).

<sup>46</sup> John A. Bishop and Haiyong Liu, "Liberalization and rent-seeking in China's labor market," *Public Choice* 135 (2008): 152.

child's acceptance into the Communist Youth League has long been established.<sup>47</sup>

Because Youth League members have a greater likelihood of joining the Party, it may be assumed this parental membership indirectly improves ones chances of joining the Party itself. Once in the Party ranks, a new Party member would be more apt to leverage their family connections in pursuit of material benefits.

### *Superior Personal Qualities*

Another way Communist Party membership translates into material benefits in China is similar to the way college education often equates to higher incomes in Western countries. Bishop and Liu suggest that the process of obtaining Party membership screens for talent, motivation, and other attributes positively correlated to good work ethic.<sup>48</sup>

An extensive screening process ensures that Party members are among China's best and brightest. Applicants must pass an intensive screening process that includes five stages: (1) self-selection, (2) political participation, (3) daily monitoring, (4) closed-door evaluation, and (5) probationary examination.<sup>49</sup> The entire process often takes several years to complete, only the most qualified candidates obtain Party cards. In other words, a Party card codes for personal characteristics that already contribute to high income and career success.

The same personal qualities attractive to the Communist Party prove attractive to prospective employers in both the public and private sector. Party membership therefore signifies that someone has examined an applicant's personal background and behavior,

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<sup>47</sup> Yanjie Bian, Xiaoling Shu, and John R. Logan, "Communist Party Membership and Regime Dynamics in China," *Social Forces*, 79 (March 2001): 832.

<sup>48</sup> Bishop and Liu, "Liberalization and rent-seeking," 152.

<sup>49</sup> Bian et. al., "Communist Party Membership," 813.

and determined that he or she met a certain standard of trustworthiness.<sup>50</sup> In public enterprises, Party membership ensures the political reliability of the applicant. In private enterprises, Party membership can reflect other desirable characteristics, including “organizational and communication skills, teamwork spirit, capability to get things done, etc.”<sup>51</sup> Once hired, an employer’s favorable attitude towards an employee’s Party membership may indirectly translate to better promotion opportunities and higher wages.

### *Dissenting Opinion*

Other scholars postulate that as China continues to modernize the overall appeal of Party membership has declined. Part of Deng Xiaoping’s plan to legitimize his economic reforms involved publically denouncing what he viewed as rampant corruption during Mao’s rule. As the errors of past administrations were exposed and condemned, some have suggested that the prestige of the Communist Party and its party-state suffered.<sup>52</sup> Some experts claim this declining reputation made for less tangible returns to Party membership as other qualifications (education, advanced skills) grew in importance.

As the CCP relinquished its absolute control over Chinese society and transferred ownership of state-owned enterprises to private or foreign-owned enterprises, some scholars suggest that the ability of Party members to allocate resources to themselves has declined. Walder discusses the implications of these changes on Party membership in the

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<sup>50</sup> Andrew G. Walder, “China’s Transitional Economy: Interpreting Its Significance,” *The China Quarterly* no. 144 (December 1995): 975. Also see: Andrew G. Walder, “Career Mobility and the Communist Political Order,” *American Sociological Association* 60, no. 3 (June 1995): 313.

<sup>51</sup> Guo, “Party Recruitment,” 387.

<sup>52</sup> Dickson and Rublee, “Membership,” 88.

future, insisting there is an “evident vulnerability of Party reward structures to the kinds of market-oriented reforms underway in China today.”<sup>53</sup>

### *Hypothesis*

Though there exists disagreement within academic circles as to the actual impact of economic reforms on Party influence, a convincing argument maintains that Party members continue to leverage political and family connections in the contemporary Chinese economy, converting their political capital into economic benefit.<sup>54</sup> It can be understood the average Party member receives material benefits not enjoyed by their nonmember counterparts in modern China.

*Hypothesis 1:* A member of the Chinese Communist Party will be more likely to enjoy more material benefits than a non Party member, all else being equal.

### **Benefits of Education**

In order to fully understand the influence of Party membership in modern China, other factors that similarly attract material benefits must be fully considered. Following reforms, the rise of higher education drastically altered the Chinese labor market.

#### *A Brief History of Higher Education in China*

China’s transition from central planning to a market economy dramatically altered the material benefits to higher education in the Chinese labor market. Before Deng’s reforms, higher education did not necessarily ensure improved employment. Because the command economy redistributed all resources according to political logic, the appropriateness of one’s employment allocation was not guaranteed. These restrictions

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<sup>53</sup> Walder, “Career Mobility,” 326.

<sup>54</sup> Bian et. al., “Communist Party Membership,” 813; Bishop and Liu, “Liberalization and rent-seeking,” 152.

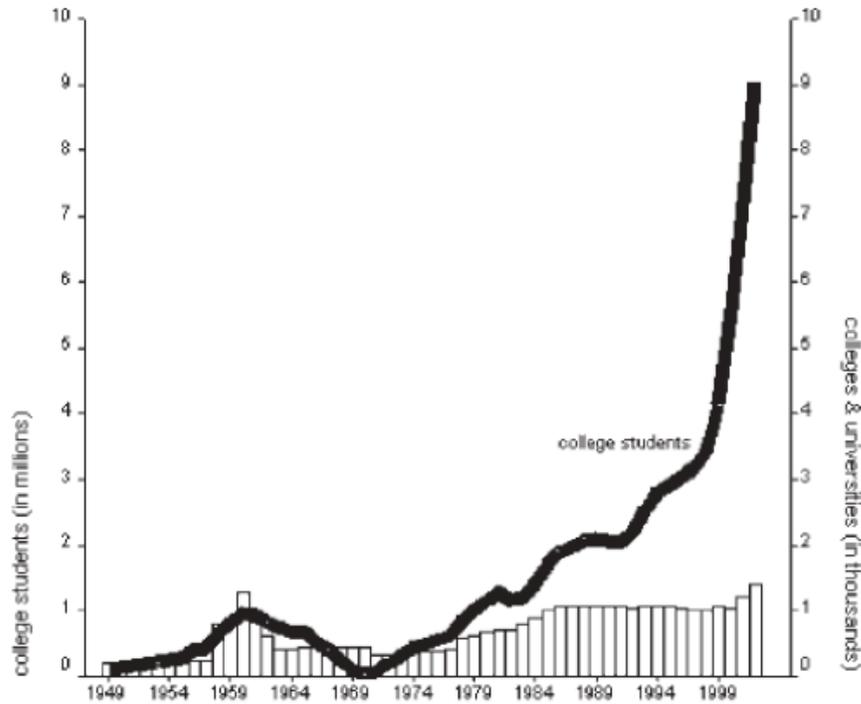
prevented many educated Chinese from capitalizing on their educational investment, and as a result, incentives to pursue higher education were greatly marginalized.

Even if higher education resulted in improved employment, it seldom included wage incentives. Before Deng's reforms, the Chinese government imposed strict wage controls typical of Communist regimes of the time. This inefficient system of wage allocation severely hindered the efficiency of the Chinese labor market. Those who obtained specialized labor market skills through higher education were rewarded with only marginal wage increases as prescribed by the "wage grid" system.<sup>55</sup> Faced with low returns to higher education, economic success during the Maoist era remained strongly tied to work organizations and personal connections (*guanxi*).

Deng Xiaoping's "reform and open up" (*gaige kaifang*) policies were expressly designed to bring the outdated Chinese economy into the modern age. The Chinese Communist Party recognized that successful implementation of reforms required the development of a well-educated technocratic elite. To build the highly educated workforce it desired, the CCP mandated the expansion of educational institutions.

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<sup>55</sup> Hai Zhong, "Returns to higher education in China: What is the role of college quality?" *China Economic Review* 22 (2011): 261.



**Figure 6:** Higher education in Mainland China (1949-2002)

*Source:* Gang Guo, “Party Recruitment of Students in China: Past and Present,” (presentation, University of Mississippi, University, MS, Fall 2012).

The national college entrance exam was restored in 1977, setting the stage for educational reform. Since then, enrollment increased dramatically in all institutions of higher education including traditional colleges and universities, as well as vocational and technical schools. By 2007, 20% of college-aged students were enrolled in some institution of higher learning.<sup>56</sup>

#### *Increasing Benefits of Higher Education*

Tangible benefits to the obtainment of higher education emerged only after significant reform of China’s overregulated labor market. In pursuing its modernization agenda, the Party relinquished many of its former powers, and patterns of resource allocation gradually shifted from governmental control to market forces. As controls on wages and job placement relaxed in the late 1980s, competition was slowly reintroduced

<sup>56</sup> Zhong, “Returns to higher education in China,” 262.

into the Chinese labor market.<sup>57</sup> For the first time in decades, employers could use higher wages to compensate highly educated employees.

After the official establishment of China's market economy, governmental control mechanisms that had marginalized returns to higher education were further relaxed or eliminated altogether. As the remnants of the centrally planned economy gave way to market forces, returns to human capital increased dramatically.<sup>58</sup> According to Human Capital Theory, employees are most likely to maximize human capital investments (like higher education) when they are able to choose their own careers.<sup>59</sup> No longer bound by the restrictive labor allocation system, an educated individual was free to accept the employment that would most adequately compensate their special skills.

Reforms impacted the returns on higher education in both the public and private sector. Reforms abolished most state-mandated plans, price controls, and large-scale job assignment programs in collective companies.<sup>60</sup> Recruitment quotas for state owned enterprises were ended and enterprises were allowed to select their own employees for the first time.<sup>61</sup> No longer bound by a centralized system of job allocation, employers in the state sector were at last free to selectively hire highly educated candidates.

Expanding employment opportunities outside of the once-monolithic state sector and Party hierarchy increasingly incentivized students to pursue higher education,

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<sup>57</sup> Wei Zhao and Xueguang Zhou, "Institutional Transformation and Returns to Education in Urban China: An Empirical Assessment," *The Future of Market Transition* 19 (2002): 344.

<sup>58</sup> Cao and Nee, "Market Transition Debate," 1176.

<sup>59</sup> Zhao and Zhou, "Institutional Transformation," 341-342.

<sup>60</sup> Yanjie Bian and John R. Logan, "Market Transition and the Persistence of Power: The Changing Stratification System in Urban China," *American Sociological Review* 61, no. 5 (October 1996): 743.

<sup>61</sup> Linda Y. Yueh, "Wage Reforms in China During the 1990s." *Asia Economic Journal* 18, no. 2 (2004): 150.

making themselves more competitive in a rapidly expanding job market.<sup>62</sup> New opportunities to pursue this higher education became available, as Chinese individuals were allowed to seek advance degrees from both Chinese and foreign universities, and were thereby able to pursue careers based on their technical expertise and personal preference.<sup>63</sup>

Some scholars suggest that this rise in employment opportunities and educational opportunities tempted the educated Chinese elite to pursue career paths outside of the traditional Communist Party hierarchy, thus eroding Party hegemony. This theory is explained in more detail below.

#### *Marginalization of Party Influence*

Joining the Party in order to obtain full returns on their investment in higher education was no longer necessary in a modernizing economy. In fact, research suggests that educational credentials are now more important to those pursuing a career as a professional in the private sector than to those pursuing an administrative career in the Party hierarchy.<sup>64</sup>

Walder concluded that in the 1980s, the influence of Party membership was being marginalized. Though membership in the Party still produced returns on individual income, this impact was not particularly exceptional, producing returns roughly equal to that of higher education.<sup>65</sup> In similar research, Dickson and Rublee postulated that as the Party modernized, education and technical credentials of citizens rose in importance relative to Party membership. Consistent with Walder's findings, their research concluded

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<sup>62</sup> Bruce J. Dickson and Maria Rost Rublee, "Membership Has Its Privileges: The Socioeconomic Characteristics of Communist Party Members in Urban China," *Comparative Political Studies* (2000): 88.

<sup>63</sup> Dickson and Rublee, "Membership," 88.

<sup>64</sup> Walder, "Career Mobility" 319.

<sup>65</sup> Walder, "Career Mobility" 319-326.

that college education had an equal or greater impact on wages and total income than rank-and-file party membership, the Cultural Revolution generation being the one exception.<sup>66</sup> They concluded that though political capital still translated into monetary benefits in China during the 1980s, human capital was rising in importance.

### *Hypothesis*

Deng Xiaoping recognized that the success of economic reforms in China required the development of a well-educated technocratic elite. Building this highly educated workforce required the expansion of material incentives to educated Chinese. This was delivered through the widespread deregulation of wages and job allocation, allowing those with college educations to fully capitalize on their educational investment. Given these reforms, it can be understood the average college graduate would receive material benefits not enjoyed by their lesser-educated counterparts in a contemporary Chinese economy.

*Hypothesis 2a:* In China, an individual with college education or higher will be more likely to enjoy more material benefits than an individual with no college education, all else being equal.

### **The Added Benefits of Education and Party Membership**

While Party membership and higher education both translated into income premiums independently, previous literature suggests that the obtainment of both qualifications produces additional financial benefits.

Though economic reforms revolutionized the Chinese labor market and provided a new framework in which educational credentials could translate into benefits, the rise of higher education in modern China cannot be divorced from Party policy. Deng Xiaoping

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<sup>66</sup> Dickson and Rublee, "Membership," 91.

recognized that successful implementation of reforms required the development of a well-educated technocratic elite. When existing institutions of higher education proved grossly ill equipped to produce the qualified personnel, Party policy mandated the rapid expansion of colleges and universities. While directing the expansion of educational opportunities for all Chinese, the Party in turn deemphasized the ideological pedigree of potential recruits and placed increasing emphasis on educational qualifications and occupational competence.<sup>67</sup>

Accordingly, the proportion of Party members with college degrees has steadily increased.<sup>68</sup> As the educational credentials of the average Party membership rose, college education became increasingly important to anyone hoping to rise through the ranks in the Party hierarchy (see Table 1, on page 11). By 2002, higher education had become a prerequisite for any position of political authority, with 91.9% of Party delegates and 98.6% of Central Committee members holding a college degree. An uneducated Party member may be able to leverage their Party membership to secure employment, but would be unlikely to rise to a managerial position. Promotions and their financial benefits were thus increasingly reserved for educated Party members.

This trend was not unique to China. In study of communist countries, Djilas described the emergence of a “new class” of intellectuals coopted into the Party hierarchy.<sup>69</sup> These intellectuals would be specially trained to take on authority positions in party and state bureaucracies, becoming the new ruling elite in their respected communist society. Modern China appears to follow this trend.

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<sup>67</sup> Walder, “Career Mobility,” 311.

<sup>68</sup> Guo, “Party Recruitment,” 374.

<sup>69</sup> Milovan Djilas, *The New Class: An Analysis of the Communist System* (New York: Praeger Press, 1957).

Some scholars consolidated this trend into the “dual path hypothesis”. In his study of the Chinese labor market, Walder proposed that two elite career paths emerged as China modernized, both leading to elite positions. In the private sector, an educated professional could achieve success with higher education alone. Success in the public sector, however, required both Party membership and higher education.<sup>70</sup> Like Walder, Dickson and Rublee discussed the emergence of “dual career paths”, in which Party membership and higher education were vital for elite Party jobs.<sup>71</sup>

### *Hypothesis*

While Party membership and higher education both translated into income premiums independently, previous research suggests that the obtainment of both qualifications produces additional financial benefits and simple Party membership or higher education alone. As the educational credentials of the average Party membership rose, college education became increasingly important to anyone hoping to rise through the ranks in the Party hierarchy. Especially in the public sector, Party membership combined with higher education may propel a Party member into more prestigious positions not available to their uneducated or nonmember counterparts. The combination of these two factors is therefore expected to accrue additional benefits.

*Hypothesis 2b:* A Party member with a college degree will enjoy even more benefits than a simple sum of the benefits from college degree and from Party membership.

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<sup>70</sup> Walder, “Career Mobility,” 323.

<sup>71</sup> Dickson and Rublee, “Membership,” 91.

## **Benefits of State Sector Employment**

Understanding the benefits attributed to Party membership requires consideration of how reforms impacted the public sector in the contemporary Chinese economy. Reforms to the public sector enacted in the late 1980s provided the framework for China's monolithic state sector to begin operating in a marketized environment. With the goal of eradicating inefficiency and maximizing output, measures were passed to increase enterprise decisionmaking autonomy and give managers access to any additional profits. As reforms continued, new opportunities for financial success emerged in China's state sector.

The official establishment of China's new "socialist market economy" in the early 1990s signaled extensive changes in internal labor practices and the ownership structure of the Chinese economy. While the Party sold or privatized a large portion of China's state-owned enterprises, the ownership of larger systemic SOEs were maintained by the state. Employees in these institutions still enjoyed generous social welfare packages unmatched in other sectors.

Despite rapidly growing opportunities elsewhere, "workers in the public sector had little incentive to move to a different sector."<sup>72</sup> Ge and Yang indicate that earning gains in China between 1992 and 2007 were largely dependent on enterprise ownership. In particular, they found much higher gains in wage premiums for state employees than nonstate employees.<sup>73</sup>

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<sup>72</sup> Sylvie Démurger, Shi Li, and Juan Yang, "Earnings differentials between the public and private sectors in China: Exploring changes for urban local residents in the 2000s," *China Economic Review* (2011): 139.

<sup>73</sup> Demurger et. al., "Earnings differentials," 139.

### *Hypothesis*

Despite extensive changes to the benefit packages allotted to state sector employees in the reform era, urban Chinese that remained employed in these institutions still enjoyed generous social welfare packages unmatched in other sectors, leading to the following hypothesis.

*Hypothesis 3a:* In China, a state sector employee will earn higher income, all else being equal.

### **The Added Benefits of State Sector Employment and Party Membership**

The official establishment of a “socialist market economy” promised to radically change the internal labor practices and the ownership structure of the Chinese economy as a whole. Though privatization campaigns largely eradicated the “iron rice bowl” guarantee of employment, there remained a welfare system in place for state sector employees, more readily accessed by Party members. Party membership effectively worked as a barrier of entry to the state sector.

### *Promotion Potential*

Although reforms granted state sector enterprises greater autonomy in hiring and firing employees, the selection of enterprise managers remained a Party-led process. All candidates applying to positions with any “political or managerial authority” were subject to screening by the Communist Party.<sup>74</sup> Positions of authority from bureau official to workshop foreman were filled by candidates approved by a designated Party committee. This lengthy certification process was greatly simplified if the candidate was a Party member, signaling he or she had already been deemed politically reliable. In this way,

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<sup>74</sup> Bian et. al., “Communist Party Membership,” 815.

Party membership became “a *minimum* requirement for consideration” for promotion.<sup>75</sup> Because Party membership increased an employee’s promotion potential, it became necessary for full enjoyment of the benefits of public sector employment. Employees with Party membership credentials in the public sector received added benefits over their non-member counterparts.

#### *Advantageous Access to Resources*

The establishment of the Chinese “socialist market economy” created a new competitive environment for enterprises operating in China’s public sector. State-owned enterprises that had enjoyed extensive governmental protections in the early Reform Era now faced competition from private enterprises and other state-run institutions. A rapidly evolving marketplace forced enterprise managers to leverage all business and political connections at their disposal in order to maintain a competitive edge. Superior “access to information and a political network of elites that monopoliz[ed] authority and resources” gave Party members in managerial positions a distinct competitive advantage.<sup>76</sup> In the unlikely event a non-Party member was elevated to a managerial position he or she faced distinct disadvantages.

While Party members were able to capitalize on their political connections to make lucrative business decisions in the public sector, increased autonomy in enterprise decision making allowed this “managerial elite” to create money-making opportunities. Faced with economic incentives, these new elites were quick to move beyond their standard managerial duties and “create new opportunities through their one large

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<sup>75</sup> Walder, “Career Mobility,” 313.

<sup>76</sup> *Ibid.*

advantage: their organizational authority”.<sup>77</sup> Reforms allowing individual state sector enterprises to keep excess profits encouraged the managerial elite to use this authority to their advantage, lured by the possibility of higher income.

#### *Entrenchment of “Managerial Elite”*

When China embarked on its landmark economic reforms, many economists warned that ambiguous private property rights would stifle the financial incentives of economic entrepreneurship. In the public sector, the opposite appears true. Walder discusses the emergence of a class of “bureaucratic entrepreneurs.” These businessmen and enterprise leaders worked within the party and state sector framework in order to pursue their business interests, the managerial elite mentioned above serving as a prime example. Party members in positions of power in the state sector enjoyed the “dual advantage of access to all communal resources (political, administrative, social and economic) and low personal risks in their economic endeavors.”<sup>78</sup> The central government and Party remained invested in the success of state run enterprises, thus shielding the managerial elite from losses suffered from risky entrepreneurial ventures.

The same managerial elite making investment decisions in the public sector pursued positions in the party-state hierarchy. Further entrenched in the political apparatus of the time, the managerial elite faced incentives that outpaced most private entrepreneurs.<sup>79</sup> Their ability to build policy suiting their own entrepreneurial endeavors created undoubtedly resulted in added financial benefits.

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<sup>77</sup> Ibid.

<sup>78</sup> Gore, *Market Communism*, 276.

<sup>79</sup> Ibid, 6.

### *Hypotheses*

As established above, economic reforms created new opportunities for financial success to those that remained in the state sector, especially for managers and cadres. However, maximization of these opportunities required additional leveraging of political capital gained through Party membership. In order to be promoted to positions of political or managerial authority, state sector employees were first screened by the Chinese Communist Party. Party members received preferential treatment. Once in managerial positions, Party members in the state sector enjoyed advantageous access to information and resources. This meant employees with Party membership credentials in the public sector received added benefits over their non-member counterparts.

### *Benefits of Manager Status*

The official establishment of China's new "socialist market economy" and subsequent reforms to the Chinese state sector brought with it new opportunities and additional benefits to Chinese employed in positions of managerial authority.

*Hypothesis 3c:* In China, an individual employed in a position of managerial authority will earn higher income, all else being equal.

### *The Added Benefits of Manager Status and Party Membership*

Reforms created new possibilities of financial success to those that remained in the state sector, especially for managers and cadres. Complete access to these new opportunities required the leveraging of political capital gained through Party membership. There emerged a new "managerial elite" capable of combining their political and managerial authority to obtain added benefits.<sup>80</sup>

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<sup>80</sup> Bian et. al., "Communist Party Membership," 815.

*Hypothesis 3d:* A Party member employed in a position of managerial authority will enjoy even more benefits than a simple sum of the benefits employment as a manager and from Party membership.

### **Benefits of Private Sector Employment**

Understanding the benefits attributed to Party membership requires consideration of how reforms impacted the private sector in the contemporary Chinese economy. Under the Maoist command economy, entrepreneurial activity on both the small scale and professional level experienced heavy regulation.

Small private vendors and peddlers were banned from selling wares and foods, and few private service businesses were permitted to operate. After economic reforms were implemented in 1978, China's first entrepreneurs were largely restricted to small individual businessmen (*getihu*) relying on small trade transactions, many self-employed. The scope of China's new private enterprises did not expand until official sanctions limiting the size of private firms were lifted in 1984, and even then their success and scope proved minimal.

On the other end of the labor market, educated professionals were unable to receive the returns to their educational credentials or practical skills that they would in a market economy. Many scholars predicted that the introduction of market reforms would allow professionals to organize, gain control over licensing and certification, pursue their desired business interests, and thus magnify their earnings.<sup>81</sup> As market reforms continued, it was assumed that professionals in the private sector would enjoy material compensation more fitting to their educational and occupational prestige.

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<sup>81</sup> Walder, "Career Mobility," 324.

### *New Opportunities in the Private Sector*

Building a modern, competitive economy required the development of China's economy beyond the state sector. As reforms continued into the 1990s, various forms of enterprises with non-state ownership emerged. Chinese professionals faced new employment opportunities in privately owned, foreign owned, joint venture, share holding and stock companies. Encouraged by new policies, more and more Chinese "jumped into the sea" of private entrepreneurship. The result was an environment where professionals found "new ways of marketing their expertise in commercial ventures."<sup>82</sup> This explosion in private sector activity presented new financial opportunities to Chinese to operate outside of the party-state hierarchy that so dominated Maoist China.

### *Competitive Wages*

The rapidly expanding private sector brought with it monumental implications to China's labor market. State sector institutions and enterprises in the non-state sector began competing for the same qualified personnel. Not bound by the same wage limitations as state-owned enterprises, private sector enterprises were able to use financial incentives to divert skilled labor away from the public sector.<sup>83</sup> This phenomenon appeared even before reforms were accelerated in the 1990s. A Beijing survey in 1987 showed that earnings of entrepreneurs in the private sector were about two to three times those of the average worker in the state sector. A similar survey conducted in Guangdong, Zhejiang, Jiangsu, and Henan provinces further reveals that the average earnings of private enterprise entrepreneurs were almost twenty times those of their

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<sup>82</sup> Dickson and Rublee, "Membership," 109.

<sup>83</sup> Chai, *China: Transition to a Market Economy*, 181.

employees.”<sup>84</sup> The opportunities for increased wages in the private sector only grew as reforms continued.

### *Opportunities Outside the Party*

Professionals who lacked Party membership credentials enjoyed new opportunities for promotions. Nonparty members who had little chance of moving into elite positions in the state sector found plenty of opportunities to do so in the nonstate sector.<sup>85</sup>

### *Hypothesis*

Encouraged by new policies and calls to “jump into the sea” of private entrepreneurship, small scale businessmen and educated professionals alike faced new opportunities in the private sector. With new pathways to financial success outside the state sector, urban Chinese enjoyed new opportunities for obtaining financial success.

*Hypothesis 4a:* In China, a private sector employee will earn higher income, all else being equal.

### **The Added Benefits of Private Sector Employment and Party Membership**

While Party membership and private sector employment both translated into income premiums independently, it has been asserted that the obtainment of both qualifications produces additional financial benefits.

The rise of the private sector and entrepreneurship in China occurred under the watchful eye of the Chinese Communist Party. In 1992, the CCP officially retired the planned economic model and proclaimed the establishment of China’s new “socialist market economy,” officially condoning the development of private enterprise. In order to

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<sup>84</sup> Ibid.

<sup>85</sup> Bian et. al., “Communist Party Membership,” 834.

maintain control in a new environment where market forces replaced central planning, the Communist Party was careful to create “new institutional arrangements to link state and society.”<sup>86</sup> By linking the growing private sector to Party institutions, Party members were able to leverage their political connections to accrue added benefits.

Despite an official ban on entrepreneurs in the Party until 2001, Party members engaging in entrepreneurial activities became increasingly embedded in the state, effectively linking Party affairs with private business interests. In order to secure their interests, the Party began slowly co-opting high performing non-members into the Party. Among the respondents of Dickson’s survey, one-third of the entrepreneurs who were party members had been co-opted into the party after they went into business.<sup>87</sup> Party membership remained a powerful tool for personal advancement even outside of the state sector.

Bian, Shu, and Logan found evidence that some managers used Party membership simply to gain and retain authority positions in their private enterprise.<sup>88</sup> Similar research suggests that though the Party did not retain explicit influence in job placement in the state sector, “for managerial positions in nonstate organizations (collective enterprises, joint ventures, stock-sharing companies, etc.), party authorities... influence[d] the process informally”.<sup>89</sup> In this light, Party membership in the private, nonstate sector could still translate to added benefits.

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<sup>86</sup> Dickson, *Red Capitalists in China*, 83.

<sup>87</sup> *Ibid*, 107.

<sup>88</sup> Bian et. al., “Communist Party Membership,” 834.

<sup>89</sup> *Ibid*, 815.

*Hypothesis*

The new private economy grew under the watchful eye of the Chinese Communist Party, which was careful to create new institutions link state and the new private sector. This included co-opting high performing non-member entrepreneurs into the Party. By linking the growing private sector to Party institutions, Party members were able to leverage their political connections to accrue added benefits.

*Hypothesis 4b:* A Party member employed in the private sector will enjoy even more benefits than a simple sum of the benefits from college degree and from Party membership.

### **Chapter 3: Data and Methodology**

By conducting linear regression analysis, I aim to illustrate the evolving benefits of Chinese Communist Party membership over time.

#### **Data**

The quantitative testing in this study was produced using survey data collected by the Chinese Household Income Project (CHIP), a joint research effort sponsored by the Institute of Economics, Chinese Academy of Sciences, the Asian Development Bank, the Ford Foundation, and Columbia University. A series of questionnaire-based interviews were conducted in both urban and rural China in late 2002, collecting information on a broad range of economic factors impacting the personal income and financial situation of respondents.

Investigators split this extensive survey into separate data sets based on separate urban and rural questionnaires. This study uses the dataset titled “Urban Individual Income, Consumption, and Employment Data” profiling individuals living in urban areas. Included in the dataset are 20,632 cases (individual urban household members) and 151 variables.

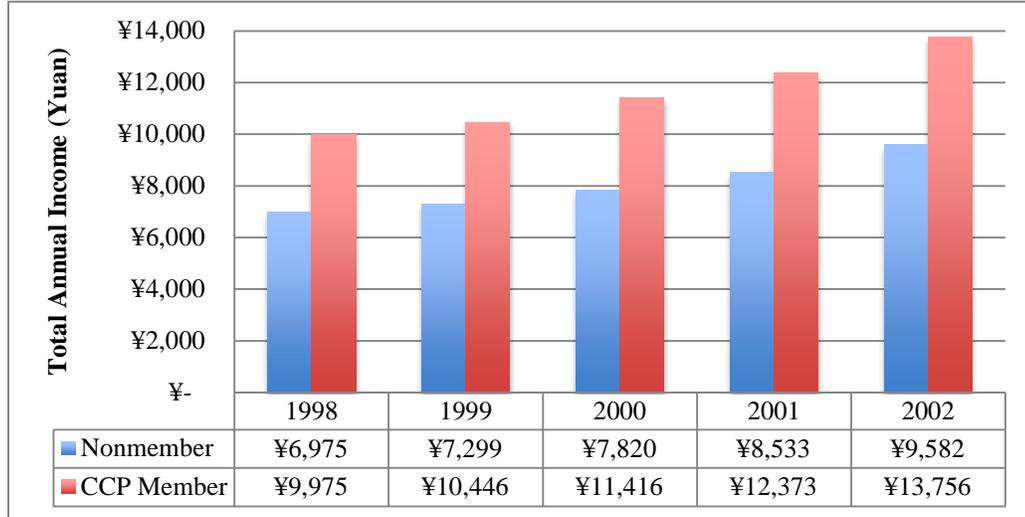
#### **Dependent Variable**

##### *Total Income*

Higher income and the associated higher standards of living provide a compelling reason to join the Chinese Communist Party. The old understanding that CCP members enjoy privileged access to the economic institutions remains widely accepted in contemporary China. The CHIP survey data accessed in this study gives credence to this perception. A simple means comparison reveals that in 2002, the average Party member

earned 43.6% more than the average nonmember, 13,756 *yuan* compared to 9,582 *yuan*. This wide disparity remained constant between 1998 and 2002 (see Figure 6).

**Figure 7.** Total annual income by CCP membership (1998-2002)



Source: 2002 Chinese Household Income Project survey data

Total income of respondents earned between the years of 1998 and 2002 serve as the dependent variables in this study. Total income reflects a respondent’s normal wages, bonuses, allowances, subsidies, severance packages, hardship compensation, and secondary income. Following conventional practice, I use the natural logs of total income to discount any outlying cases of extremely high income.

An important limitation of my dependent variable is the inability to account for the individual components that make up total income. In similar studies it was common practice to consider both “basic income” derived from official wages or salary and “total income” accounting for any bonuses and salaries in addition to basic income.<sup>90</sup> The logic behind comparing regular salary and total income separately is to determine whether the explanatory variables have similar impacts on different components of income. The

<sup>90</sup> Dickson and Rublee, 2000; Walder, 1995; Zhao and Zhou, 2002.

unique coding of variables for total income in the CHIP 2002 makes it implausible to separate these two components.

### **Independent Variables**

Many of the variables used in this analysis are straightforward and require no explanation. Chinese Communist Party membership is accounted for by the dummy variable *Membership* (coded 1 for Party members). The dummy variable *Male* was created to account for variances based on gender (coded 1 for males, 0 for females).

According to convention, this study includes a standard interval level variable for *Age*. In linear regressions it is assumed all independent variables have a linear relationship with the dependent variable. An individual's total income is not expected to increase steadily throughout one's lifetime due to retirement. *Age* does not have a purely linear relationship with the dependent variable, it must receive special consideration. The inclusion of an *Age Squared* variable accounts for this non-linearity in later regressions.

#### *Education*

To capture increases in total income due to educational attainment, I included in this study two independent variables for highest degree earned. The dummy variable *High school* (coded 1 for high school education) accounts for completion of senior middle school (高中, 职高, 中技) to technical secondary school (中专). The dummy variable *College* (coded 1 for college education) represents the completion of some form of tertiary education, including junior college (大专), traditional college or university (大学), and graduate school (研究生).

In previous studies, researchers often used one of two methods to account for education in their regression analyses. Conventional wisdom suggests that using "years of

schooling” as an independent variable provides the most precise estimation of the benefits of education, able to estimate the average benefit per year of education.<sup>91</sup> This study chooses to follow the example of other scholars and construct a dummy variable for both high school and college education.<sup>92</sup> As explained previously, higher education has become a prerequisite for career and financial success in a modern China. The presumed impact of higher education on total income will be more accurately captured by use of the *College* dummy variable instead of the “years of schooling” method used in other studies.

#### *State Sector and Manager Status*

To account for the impact of employment in certain sectors on total income, I created the dummy variable *State sector* to code for state sector employment (coded 1 for state sector employment). This variable accounts all respondents employed in (1) SOEs at the central or provincial level, (2) SOEs at the local level, and (3) state share-holding companies. A major limitation to the creation of the *State sector* dummy variable is the inability to account for respondents employed in government institutions, traditionally considered a vital part of the state sector.

To account for the impact of employment as a manager (or similar high-ranks in the state sector) on total income, I created the dummy variable *Manager*, coded 1 for manager status. This variable accounts all respondents employed as (1) director of government agent, institution and enterprise, (2) department director government agent, institution, or enterprise.

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<sup>91</sup> Zhao and Zhou, 2002.

<sup>92</sup> Dickson and Rublee, 2000; Walder, 1995.

### *Private Sector Employment*

To estimate returns to education outside of the state sector, I created the dummy variable *Private sector* (coded 1 for private sector employment). Included in this variable are all respondents employed in (1) private firms including partnerships, (2) Sino-foreign joint ventures, (3) foreign companies, (4) nonstate share-holding companies, (5) rural enterprises, and (6) respondents who are self-employed. Collective enterprises were notably omitted from these employment variables, as they are impossible to categorize into purely “state” or “private”.

### *Interaction Variables*

In order to test my hypotheses regarding the added benefits of college education, state sector employment, manager status, and private sector employment when combined with Party membership, I constructed the appropriate interaction variables. Computing the *College* and *CCP Membership* dummy variables created the variable *College\*CCPMembership*. Similarly, computing the dummy variables for *State sector* and *CCP Membership* produced the appropriate *StateSector\*CCPMembership* interaction variable. Again, computing the dummy variables for *Manager* and *CCP Membership* produced the appropriate *Manager\*CCPMembership* interaction variable. And finally, computing the dummy variables for *Private sector* and *CCP Membership* resulted in the *PrivateSector\*CCPMembership* interaction variable.

### **Methodology**

Two linear regression analyses are used in order to determine the effect of the aforementioned independent variables on the dependent variable, total income.

Model 1: The first set of linear regressions considered the impact of seven independent variables (CCP Membership, gender, age, high school education, college education, state sector employment, manager status, and private sector employment) on total annual income from 1998 to 2002. The equation used is specified as follows:

$$\begin{aligned} \log(\text{TotalIncome}) = & \beta_0 \\ & +\beta_1*\text{CCPMembership} \\ & +\beta_2*\text{Male} \\ & +\beta_3*\text{Age} \\ & +\beta_4*\text{AgeSquared} \\ & +\beta_5*\text{HighSchool} \\ & +\beta_6*\text{College} \\ & +\beta_7*\text{StateSector} \\ & +\beta_8*\text{Manager} \\ & +\beta_9*\text{PrivateSector} \end{aligned}$$

Model 2: The second set of linear regressions considered the impact of the same eight independent variables, with the addition of three interaction variables (*College\*CCPMembership*, *StateSector\*CCPMembership*, *Manager\*CCPMembership* and *PrivateSector\*CCPMembership*), on total annual income from 1998 to 2002. The equation used is specified as follows:

$$\begin{aligned} \log(\text{TotalIncome}) = & \beta_0 \\ & +\beta_1*\text{CCPMembership} \\ & +\beta_2*\text{Male} \\ & +\beta_3*\text{Age} \\ & +\beta_4*\text{AgeSquared} \\ & +\beta_5*\text{HighSchool} \\ & +\beta_6*\text{College} \\ & +\beta_7*(\text{College*CCPMembership}) \\ & +\beta_8*\text{StateSector} \\ & +\beta_9*(\text{StateSector*CCPMembership}) \\ & +\beta_{10}*\text{Manager} \\ & +\beta_{11}*(\text{Manager*CCPMembership}) \\ & +\beta_{12}*\text{PrivateSector} \\ & +\beta_{13}*(\text{PrivateSector*CCPMembership}) \end{aligned}$$

## Chapter 4: Empirical Results

The results included in Table 4 are based on data from the 2002 Chinese Household Income Project survey.

Table 4 records the regression results for Model 1, which includes variables for basic demographic and employment characteristics. This model seeks to explain the additive impact of personal and job-related attributes on a respondent's total income between 1998 and 2002. Table 4 also records regression results for Model 2, which includes the same demographic and employment variables of Model 1, with the addition of four interaction variables (*College\*CCPMembership*, *StateSector\*CCPMembership*, *Manager\*CCPMembership*, and *PrivateSector\*CCPMembership*) described in the Data & Methodology section.

Separate Ordinary Least Squares (OLS) regressions were conducted for each year mentioned above, repeated for both Models 1 and 2. The beta coefficients are recorded accordingly.

The asterisks included beside the recorded beta coefficients denote the p-value of each variable included in the regression. P-values explain the statistical significance of independent variables at determining variations in the dependent variable. If the p-value is less than .05, the value is statistically significant and the “null hypothesis”—the hypothesis that there is no relationship between the dependent variable and the independent variable—can be rejected. If the p-value is greater than .05, the “null hypothesis” cannot be rejected, and the results are therefore deemed inconclusive.

**Table 4.** Ordinary Least Squares (OLS) Regression of Logged Total Income

Independent Variable	1998		1999		2000		2001		2002	
	Model 1	Model 2								
<b>CCP Membership</b>	.079***	.130*	.091***	.144**	.111***	.180**	.112***	.174**	.112***	.174**
<b>Male</b>	.180***	.180***	.187***	.187***	.180***	.180***	.192***	.192***	.174***	.174***
<b>Age</b>	.043***	.044***	.052***	.052***	.044***	.045***	.048***	.049***	.044***	.044***
<b>Age Squared</b>	.000***	.000***	-.001***	-.001***	.000***	.000***	.000***	.000***	.000***	.000***
<b>High school</b>	.198***	.195***	.174***	.171***	.200***	.196***	.241***	.238***	.292***	.292***
<b>College</b>	.438***	.444***	.443***	.450***	.470***	.469***	.541***	.546***	.612***	.612***
<b>College*CCPMembership</b>	--	-.025	--	-.027	--	-.005	--	-.023	--	--
<b>State sector</b>	.205***	.212***	.215***	.225***	.236***	.249***	.234***	.245***	.259***	.259***
<b>State*CCPMembership</b>	--	-.029	--	-.041	--	-.053	--	-.039	--	--
<b>Manager</b>	.137***	.253***	.129***	.222***	.144***	.282***	.143***	.296***	.131***	.131***
<b>Manager*CCPMembership</b>	--	-.172*	--	-.135*	--	-.207*	--	-.227*	--	--
<b>Private sector</b>	.177***	.186***	.181***	.189***	.195***	.208***	.178***	.187***	.185***	.185***
<b>Private*CCPMembership</b>	--	-.040	--	-.028	--	-.056	--	-.040	--	--
<b>Constant</b>	7.219***	7.205***	7.096***	7.082***	7.297***	7.284***	7.230***	7.217***	7.328***	7.328***
<b>Adjusted R<sup>2</sup></b>	.113	.114	.124	.125	.135	.136	.142	.143	.150	.150

\*p&lt;.05. \*\*p&lt;.01, \*\*\*p&lt;.001

Data Source: Shi, Li. Chinese Household Income Project, 2002.

## **Additive Model (Model 1) Analysis**

### *Statistical Significance, Adjusted R, and Interpretation*

The p-values of the beta coefficients in Model 1 were all less than .05. This signals that for all independent variables included, the results were statistically significant and the null hypothesis can be rejected. However, the adjusted R-squares for the years 1998 to 2002 were .113, .124, .135, .142, and .150, respectively. This means that variables included in the Model 1 regression analysis accounted for only 11% to 15% of variation in a respondent's total income. Nonetheless, the beta coefficients produced for Model 1 produce conclusive results.

The regression coefficients produced when the dependent variable (*Total Income*) has been log transformed requires some interpretation. The exponentiated coefficient  $\exp(\beta_1)$  for *CCPMembership* is the ratio of the expected geometric mean for Party members over the expected geometric mean for nonmembers, when the values for other independent variables are fixed. This ratio is a constant:  $\exp(\beta_1)$ . Using the 2002 Model 1 regression as an example,  $\exp(\beta_1) = \exp(.112) = 1.1185$ . We can say that total income will be 11.85% higher for CCP members than for nonmembers.

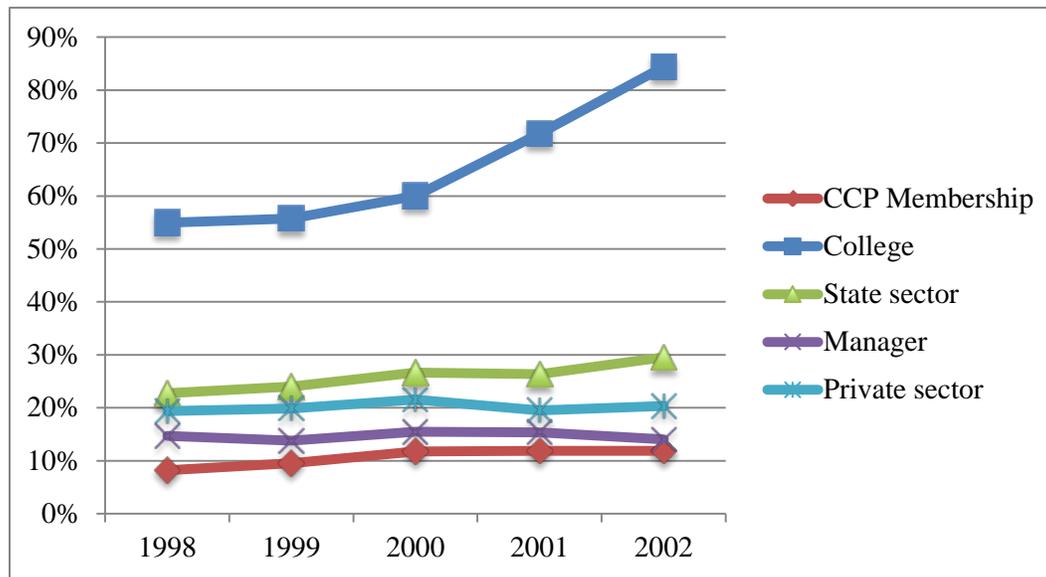
I calculated the exponentiated regression coefficients for each independent variable in order to determine their corresponding percent increase in total income. These percentages were recorded in Table 5 below. Model 1 provides a consistent, statistically significant baseline from which we can address several hypotheses posed in previous chapters.

**Table 5.** Model 1 Percent change in total income by independent variable (in percentages)

	1998	1999	2000	2001	2002
<b>CCP Membership</b>	8.22	9.53	11.74	11.85	11.85
<b>College</b>	54.96	55.74	60.00	71.77	84.41
<b>State sector</b>	22.75	23.99	26.62	26.36	29.56
<b>Manager</b>	14.68	13.77	15.49	15.37	14.00
<b>Private sector</b>	19.36	19.84	21.53	19.48	20.32

Source: Author's calculation

**Figure 8:** Analysis of key components of total income 1998-2002 (Model 1)



Note: Numbers on y-axis refer to the percent increase in total income for each independent variable.  
Data Source: Shi, Li. Chinese Household Income Project, 2002.

### CCP Membership

*Hypothesis 1:* A member of the Chinese Communist Party will be more likely to enjoy more material benefits than a non Party member, all else being equal.

The dummy variable for CCP membership in Model 1 achieved statistical significance for every year between 1998 and 2002. The beta coefficients remain constant and slightly increased between 1998 and 2002 (see Table 4). The exponentiated regression coefficients of CCP Membership between 1998 and 2002 were calculated and recorded in the first row of Table 5. Model 1 predicts that between the years 1998 and

2002, Party membership produced between 8.22 and 11.85 percent increase in total income. These results strongly suggest that Party membership does indeed have its benefits in a modern China.

However, these coefficients remain significantly smaller than those coding for college, state sector, manager, and private sector, indicating that other factors add more to one's income than simple Party membership. Nonetheless, because the independent effect of Party membership is to increase total income, my results support the assertion of Hypothesis 1. In contemporary China, a member of the Chinese Communist Party will be more likely to enjoy more material benefits than a non Party member, all else being equal.

#### *Education*

*Hypothesis 2a:* In China, an individual with college education or higher will be more likely to enjoy more material benefits than an individual with no college education, all else being equal.

The dummy variables for college and high school education included in Model 1 achieved statistical significance for every year between 1998 and 2002. Consistent with previous research, the independent variable shown to have the strongest impact on a respondent's income was college education. In 2002, the independent effect of a college education was a near 85% increase in total income, over two times higher than the impact of Party membership. What is more, the impact of a college education on income appears to be rising as China continues to modernize (again, see Figure 8).

These results strongly support the assertions of Hypothesis 2a. In contemporary China, an individual with college education or higher will be more likely to enjoy more material benefits than their uneducated counterparts.

*State Sector Employment, Manager Status, and Private Sector Employment*

*Hypothesis 3a:* In China, a state sector employee will earn higher income, all else being equal.

*Hypothesis 3c:* In China, an individual employed in a position of managerial authority will earn higher income, all else being equal.

*Hypothesis 4a:* In China, a private sector employee will earn higher income, all else being equal.

The dummy variables for state sector, manager status, and private sector employment included in Model 1 achieved statistical significance for every year between 1998 and 2002. In 2002, the independent effect of employment in the state sector was an approximate 30% increase in total income, almost three times higher than the independent impact of Party membership (11.85%). In the same period, the independent effect of manager status was a 14% increase in total income. During the same year, the independent effect of employment in the private sector was a 20% increase in total income, almost twice the impact of Party membership.

These results substantiate Hypotheses 3a, 3c, and 4a. Employment in both the state and private sectors, as well as manager's status, result in higher income, and substantially higher than Party membership alone. It is with this understanding that we can address the possible existence of interaction effects between Party membership and

other factors that influence income. Analysis of associated “interaction variables” follows below.

## **Interactive Model (Model 2) Analysis**

### *Why Interaction Matters*

The previous additive model assumes that the effect of Party membership is constant across different groups of people. The income premium earned Party membership would be the same for college educated Chinese as it was for those with high school diplomas. A state sector employee would earn the same premium from his or her Party membership as a private sector employee. The effect of these independent variables would be purely linear under the previous additive model.

That is to say, by nature, linear regression assumes that independent variables and the dependent variable have a purely linear relationship. In the case of this study, it would assume that the effect of one independent variable (*CCP Membership*, for example) on the dependent variable (*Total income*) is the same for all values of the other independent variables in the model. The assumption maintains that the coefficient produced in regression analysis for a certain independent variable like *CCP Membership* will remain constant no matter the value of other independent variables *Male, Age, High school, College, State Sector, Manager, Private sector*.

This standard additive linear regression would fail to reflect these possible interaction effects. But what if the effect of Party membership on income is not constant across different groups of people? Do state sector employees earn higher income premiums from Party membership than non state sector employees? Do managers of enterprises enjoy added benefits from their Party card that average workers do not?

### *Interaction Variables in Regression Analysis*

Interaction variables in regression analyses adjust the impact of an independent variable on the dependent variable depending on the value of a second independent variable. For example, assume that there is interaction occurring between the independent variables *CCPMembership* and *Manager* when determining the dependent variable *Total income*. For a Party member in a managerial position, an interaction variable would adjust the impact of *CCPMembership* on *Total income* if *Manager* was included in the regression. This may be higher or lower than a Party member not in a managerial position.

A simplified regression equation below clarifies the relationship between these two variables and an interaction variable. The “+ ...+” denotes the other independent variables included in the regression, but left out here for readability.

Log(income)=

$$\beta_0 + \beta_1 * CCPMemberships + \dots + \beta_{10} * Manager + \beta_{11} * (Manager * CCPMemberships)$$

If an individual is a CCP member (*CCP Membership* coded 1) but not a manager (*Manager* coded 0), the interaction variable (*Manager\*CCPMembership*) would also be coded 0, and there would be no additional income premium. An individual’s income would be determined by the constant ( $\beta_0$ ), the premium gained from CCP Membership ( $\beta_1 * CCPMemberships$ ), and other independent variables omitted in the simplified equation above as “+ ...+”, but include (*Male, Age, High school, College, State sector, Private Sector*), and any additional interaction variables.

A non Party member individual (coded 0) who works as a manager (coded 1) would similarly not enjoy the extra income premium from the interaction variable

(*Manager\*CCPMembership*). This individual's income would be determined by the constant ( $\beta_0$ ), the premium gained from Manager status ( $\beta_{10}$ \**Manager*) and other independent variables and interaction variables mentioned above. Only if both the values for *CCPMembership* and *Manager* are 1, an additional income premium can be expected.

This same relationship between *CCPMembership* and *Manager* was expected for the *College\*CCPMembership*, *StateSector\*CCPMembership*, and *PrivateSector\*CCPMembership* variables. In the presence of both Party membership and another independent variable (*College*, *State sector*, *Private sector*), an added income premium should be seen. The results of these interaction variables recorded previously in Table 4 are explained below.

#### *Statistical Significance, Adjusted R, and Interpretation*

In Model 2, the independent variables that starred in Model 1 (*CCP Membership*, *College*, *State sector*, *Manager*, and *Private sector*) produced statistically significant results (see Table 4). However, the p-values for three of the four interaction variables (*College\*CCPMembership*, *StateSector\*CCPMembership*, and *PrivateSector\*CCPMembership*) did not achieve similar significance. Because the p-values were above .05 and not statistically significant, we cannot reject the null hypothesis, and the results are inconclusive.

The results for the variable *Manager\*CCPMembership* proved to be a notable exception. The p-values of the beta coefficients for this interaction variable achieved statistical significance at the 5% level (\* $p < .05$ ). Because these results were statistically significant, we cannot reject the null hypothesis, and this interaction is worth full discussion later in this chapter.

It is worth mentioning the adjusted R-squares for Model 2 between the years 1998 to 2002 were .114, .125, .136, .143, and .151, respectively. This may be seen as a small disappointment. Despite the addition of four interaction variables, Model 2 accounted for only 11% to 15% of variation in a respondent's total income. Nonetheless, these interaction effects warrant further exploration below.

#### *Statistically Insignificant Interaction Variables*

*Hypothesis 2b:* A Party member with a college degree will enjoy even more benefits than a simple sum of the benefits from college degree and from Party membership.

*Hypothesis 3b:* A Party member employed in the state sector will enjoy even more benefits than a simple sum of the benefits from college degree and from Party membership.

*Hypothesis 4b:* A Party member employed in the private sector will enjoy even more benefits than a simple sum of the benefits from college degree and from Party membership.

Again, the interaction variables *College\*CCPMembership*, *StateSector\*CCPMembership*, and *PrivateSector\*CCPMembership* did not achieve statistical significance in Model 2. The regression results are unable to support hypotheses 2b, 3b, or 4b. These inconclusive results could be attributed to a variety of factors, from spurious data to small sample size.

In addition, the categories of "state sector" and "private sector" may have not accounted for the possible large variations within these samples. Certain college educated Party members may have become extremely successful, similar to the Chinese

Communist Party technocrats that rose to prominence in the 1990s, many of whom amassed large fortunes. The impressive incomes of these few college educated Party members may simply be an exception, rather than the rule. Further research is necessary to explore what factors exactly prevented these variables from achieving statistical significance.

*Statistically Significant Interaction Variable: Manager\*CCPMembership*

The goal of interaction model was to quantify the income premium for Party membership in the presence of interaction effects between other independent variables. Of the four interaction variables included in Model 2, only the interaction variable for *CCP* and *Manager* achieved statistical significance. This signals that the effect of Party membership on income is not constant across different groups of people, namely managers and non managers. Simply stated, the income premium associated with Party membership depends on if an individual is a manager or not. Exploring how the income premiums vary require us to revisit the original regression results.

*Income Premium for CCP Membership*

In order to quantify the income premium for CCP membership, we must consider two different situations. The regression results for the year 2002 are used as a reference. For managers, the final coefficient for Party membership income premium is the sum of the beta coefficient for *CCPMembership* alone (.170) and the beta coefficient for the interaction variable *Manager\*CCPMembership* (-.234), resulting in a new coefficient of (-.064). For non managers, the interaction variable is not activated and only the coefficient for Party membership (.170) need be considered.

*Income Premium for Manager status*

In order to quantify the income premium for manager status, two different situations must be considered. The regression results for the year 2002 are again used as a reference. For Party members, the final coefficient for manager income premium is the sum of the beta coefficients for *Manager* (.290) and the beta coefficient for the interaction variable *Manager\*CCPMembership* (-.234), resulting in (.056). For non Party members, the interaction variable is not factored into the regression and only the coefficient for manager status (.290) need be considered.

### *Interpreting the Results*

Similar to the analysis of Model 1, because the dependent variable (*Total Income*) is log-transformed, the regression coefficients used in these calculations for Model 2 with require some interpretation. I calculated the exponentiated regression coefficients for each standard (non-interaction) independent variable in Model 2, thus determining the corresponding percent increase in total income for each variable and recorded in Table 7.

The percent increases for *College*, *State sector*, and *Private sector* are included at the bottom of Table 7 for reference. Because the results are extremely similar to those produced and further explained in the Model 1 discussion, these coefficients will not be addressed at length in the Model 2 discussion. A college education still produced the largest single impact on total income, with state sector and private sector employment still having a large impact.

**Table 7.** Model 2 Percent change in total income by independent variable (in percentages)

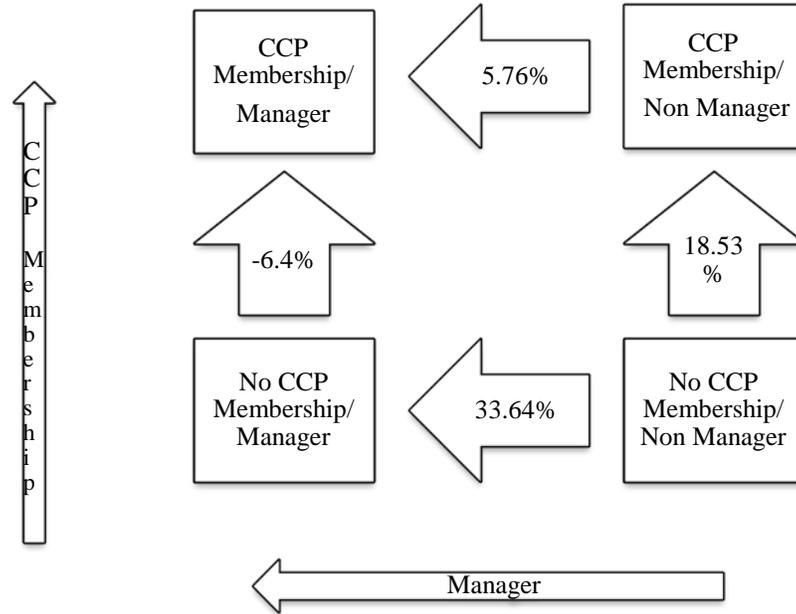
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>CCP Membership Premium (Non Managers)</b>	13.88	15.49	19.72	19.01	18.53
<b>CCP Membership Premium (Managers)</b>	-4.11	.90	-2.66	-5.16	-6.4
<b>Manager Premium (no Party membership)</b>	28.79	24.86	32.58	34.45	33.64
<b>Manager Premium (Party membership)</b>	8.44	9.00	7.79	7.14	5.76
<b>College</b>	55.89	56.83	59.83	72.63	84.97
<b>State sector</b>	23.61	25.23	28.27	27.77	31.13
<b>Private sector</b>	20.44	20.80	23.12	20.56	21.05
<b>Constant</b>	7.205	7.082	7.284	7.217	7.320

*Source:* Author's calculation

The first two lines in Table 7 denote the percent increase in total income for Party membership. However, this increase in total income is not constant due to interaction effects of the *Manager* variable. For non managers, Party membership has an income premium of 18.53%. For managers, Party membership has an income premium of -6.4%.

The third and fourth lines in Table 7 denote the percent increase in total income for manager status. However, this increase in total income is not constant due to interaction effects with *CCPMembership*. For non Party members, being a manager has a large income premium of 33.64%. For Party members, being a manager has a small premium of 5.76%. These results may be better illustrated in Figure 9 below.

**Figure 9.** Income premiums for CCP membership and manager status (2002)



The largest income premium seen in Figure 9 is between non managers and managers with no Party membership. This “Manager Premium” achieved 33.64%, a percentage comparable with the income premium for state sector employment (see Table 7). Several factors could have attributed to this premium. Because non Party managers are not constrained by the same governing oversight and wage restrictions as Party managers found in the state sector, these managers may be more apt to direct financial gains towards their own paychecks. In the free market, their increased autonomy appears beneficial.

The second largest income premium depicted in Figure 9 is seen between non managers in regards to Party membership. Non managers with CCP membership earn an

income premium of 18.53% over their non Party counterparts. This “Party Membership Premium” is just shy of the income premium of private sector employment, a significant premium itself. This premium from CCP membership in the case of non managers could be derived from superior access to stable jobs in the state sector that provide higher than average income.

The next largest income premium occurred between Party members in regards to Manager status. Party members earned “Manager Premium” of 5.76%, a small but significant income premium. This additional income is likely derived from the pure wage benefits of promotion, and the additional resources that come from a position of prestige.

The most surprising income premium depicted in Figure 9 is the negative interaction or “Party Membership Premium” between managers, at -6.4%. This suggests that managers with Party cards earn on average less than their non Party member counterparts. This likely has to do with the wage and price controls placed on managers across the board in the Party and state sector hierarchy. New forces in market allocation present in the private sector may also have allotted additional benefits towards managers in the state sector, benefits unavailable to state sector employees with more stable, but more slow to grow, income.

#### *Hypothesis Revisited*

The postulation that occurred earlier in this thesis largely failed to be proven following the completion of the previous regression analysis. The associated hypothesis is listed below for reference.

*Hypothesis 3d:* A Party member employed in a position of managerial authority will enjoy even more benefits than a simple sum of the benefits employment as a manager and from Party membership.

Contrary to expectation, it appears that a Party member employed in a position of managerial authority does not always, in fact, enjoy more benefits than a simple sum of the benefits of Party membership and prestigious employment. In fact, CCP managers who held Party cards actually earned less than they would have should they not have both characteristics. For non managers, however, CCP membership still had the independent effect of raising one's income. The hypothesis above was at least partially disproven.

Several factors may contribute to the unexpected results of this regression analysis. The survey data, while respectable and the sample size large, could have been skewed towards certain neighbors in urban China, thus compromising variation. A more realistic explanation, however, is that in a modern China, the most highly paid managers are not Party members. As China's economy marketized and the employment opportunities expanded beyond the state sector, many of China's best and brightest pursued their fortunes in the private sector. In addition, Party member managers in the state sector were often subject to wage controls that would severely skew their yearly earnings.

### **A Call for Future Research**

Although most of the interaction variables included in this regression analysis did not achieve statistical significance and could not be discussed in depth, the results from the statistically significant *Manager\*CCPMembership* variable produced interesting and

unexpected results. Future research and more fine-tuned regression models may be able to explore the interaction effects of contemporary China in more detail.

## **Chapter 5: Conclusion**

This thesis sought to explain the true value of Chinese Communist Party membership in a modern China, and determine from where these benefits are derived.

Statistical analysis concluded that between the years 1998 and 2002, Party membership indeed produced monetary benefits independent of other factors. Though the magnitude of these benefits was modest, the results help debunk the myth that an outdated Chinese Communist Party holds little influence in the modern Chinese economy.

Precisely how a Party card accrues material benefits, however, remains a topic of debate. Some scholars claim the political connections attributed to Party membership continue to propel Party members into positions of power and prestige, and they are able to allocate more benefits to themselves in the form of wages and promotions without significant opposition. Others maintain that Party membership translates into material benefits in the same way college degrees produce higher incomes in Western countries, already screening for talent, motivation, and other attributes positively correlated to higher income. Determining how exactly Party membership translates into material benefits requires additional research beyond the scope of this study.

Consistent with previous research, this study also concludes that higher education remains the strongest determining factor of high-income obtainment, far exceeding that of CCP membership. However, the rise of higher education in modern China cannot be divorced from Party influence. By the time the 16<sup>th</sup> Party Congress opened in 2002, 91.9% of Party delegates and 98.6% of Central Committee members held college

degrees.<sup>93</sup> As long as this technocratic elite continues to rule China, higher education will remain a prerequisite to success.

The regression analysis included in this thesis was unable to provide conclusive results into the relationship between Party membership and success in certain employment sectors. However, recent scandals involving CCP members in both public and private industries suggest that these favorable interactions occur, and frequently.

The Chinese Communist Party remains deeply intertwined with the state sector. Over two-thirds of SOE board members, and three-quarters of senior executives are CCP officials or members. It is no coincidence that during the past decade, SOEs received over two-thirds of the Chinese government's formal financial assistance at discounted rates, rising to 90% during the global Financial Crisis of 2008.<sup>94</sup> Recent reports surrounding the fortunes of state business executives (and Party card holders) suggest that in the state sector, membership may have even more benefits than before.

In 2001, President Jiang Zemin shocked many observers when he announced that the Chinese Communist Party would begin accepting private businessmen into its ranks. Subsequent scandals have revealed that for many entrepreneurs-turned-Party-officials, membership definitely has its benefits. According to a Hurun report, 75 people appearing on China's rich list from 2007 to 2012 served in the high-ranking government positions.

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<sup>93</sup> Gang Guo, "Political Recruitment: The Rise of the Technocrats," (presentation, University of Mississippi, University, MS, Fall 2012).

<sup>94</sup> John Lee, "China's Rich Lists Riddled With Communist Party Members," *Forbes*, September 14, 2011, accessed March 14, 2013, <http://www.forbes.com/2011/09/14/china-rich-lists-opinions-contributors-john-lee.html>.

During the same period, their fortunes grew by 81%.<sup>95</sup> Other rich list members who did not hold political office only saw their wealth grow by 47% during the same period.

Downsides of Party membership are hard to see, and potential gains prove compelling. The common perception remains that the most successful individuals, not only in the government but also in state-owned enterprises and the private sector, are members of the Chinese Communist Party.

My friend Xue Xiao and his arduous application process to the Chinese Communist Party may well have been worth it. He was motivated improved career prospects and higher salary possibilities, not ideological commitment that motivated so many before him. Xue Xiao saw a Party card as an edge in a competitive job market that might translate into a these benefits. Though the actual origination of these benefits warrants future study, this study's research reveals that membership indeed has its benefits in a contemporary China. If membership in the CCP truly does have these benefits in modern China, the question is not "why join?" but "why not?"

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<sup>95</sup> James Areddy and James V. Grimaldi, "Defying Mao, Rich Chinese Crash the Communist Party," *The Wall Street Journal*, December 29, 2012, accessed March 21, 2013, <http://online.wsj.com/article/SB10001424127887323723104578187360101389762.html>.

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