

Tori Thoman

Advisor: Dr. Guo

Thesis Prospectus

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Evolving Benefits of Communist Party Membership in a Modernizing Urban China

### **Research Question**

Between 1949 and 1978, the Chinese Communist Party (CCP) and its socialist organizations replaced the family as the center of Chinese life. With few social organizations permitted to operate outside of the Communist umbrella, membership in the CCP was one of the few avenues for social mobility in China (Dickson and Rublee 2000, 89). 1978 was a watershed moment in modern Chinese history. Deng Xiaoping's 'reform and open up' policies revolutionized the nation's economic, educational, and political institutions in an unprecedented fashion. As private enterprises emerged, and college enrollment expanded, the actual benefit of Communist Party membership was called into question. Did expansive opportunities in the private sector erode the Party's hegemony? Did the rise of higher education replace CCP membership in importance when determining high income? This thesis seeks to illustrate how returns on Chinese Communist Party membership have evolved as China continued to modernize.

### **Contextual Background**

#### *The Maoist Period*

From 1949 to 1978 the socialist organizations constructed by the Chinese Communist Party dominated Chinese society. The command economy put in place by the Communist state strictly controlled all goods and services available to the Chinese public. Through their government-assigned work unit (*danwei*) citizens accessed food rations, employment,

education, medical services, retirement services, and housing. The Communists prohibited ownership of private property, and any private business transactions were severely limited (Hong 2004, 24). With the heavily centralized, one-party system in place, Party membership represented “the primary—perhaps the only—avenue toward good jobs, access to scarce resources (such as better education, travel, and various goods and services), and social prestige” (Dickson and Rublee 2000, 89). In a situation where the one-party state controlled all access to goods and services, joining the CCP would logically have high returns in terms of income, job placement, and quality of life.

The relationship between higher education and the Communist government went through periods of ebbs and flows since the party rose to power in 1949. Higher education was of high importance in the 1950s as the Communist Party sought to build a new bureaucracy, the enrollment in colleges and universities steadily rising during the 1950s. But it was not to last. The Cultural Revolution, beginning in 1966 and lasting roughly a decade, devastated higher education in China (Guo 2005, 372). With intellectuals labeled a suspect social class, the percentage of Chinese pursuing higher education dropped dramatically, and educational credentials for employment and Party membership were greatly deemphasized. The little human capital China did possess was poorly allocated under state socialism (Zhao and Zhou 2002, 342). In short, highly educated Chinese under Communist rule were unable to reach optimum returns on their education.

### *The Reform Era*

Following Mao’s death, the ‘reform and open up’ policies of Deng Xiaoping revolutionized Chinese economic and political spheres. For the first time since the rise of the Communists in 1949, China experimented with private sector growth. Relaxed labor laws allowed individuals to leave their work units and allocate their labor to industries and

occupations where income returns were potentially higher. The first wave of private entrepreneurs known as *getihu* emerged in the early 1980s, though they lacked the government connectedness and necessary for groundbreaking success. Though their advancements were notable, most Chinese still lived “in the shadow of political authoritarian and economic centralization” until the late 1980s (Hong 2004, 26). Reforms to the Chinese economy continued steadily, and “gradually, this trickle of human energy into market-related organizational activities became a torrent” (Chao and Myers 1998, 357).

As the Chinese economy grew in the 1980s, the demand for educational professionals rose exponentially. New policies aggressively emphasized educational credentials for Party applicants in an attempt to attract a new technocracy to fuel economic reforms, and employers adopted similar standards (Guo 2005, 374; Zhao and Zhou 2002, 345). As market forces gradually took hold and educated professionals were allowed to pursue appropriate employment, returns on higher education rose and incomes increased (Zhao and Zhou 2002, 341).

### **Previous Research**

With the participation in the private sector and higher education attainment produced extremely visible returns to an individual’s income, a narrative emerged questioning the returns on Communist Party membership in China following economic reforms. Numerous studies explored the impact of these different factors on individual income, attempting to account for the societal changes following modernizations of the 1980s.

Numerous regressions revealed that despite the economic reforms of the 1970s and 1980s, Party membership remained statistically significant when determining both an individual’s income and their job rank. Human capital in the form of college education provided a greater benefit than regular Party membership when determining income. However, Party

membership and college education proved almost equally important when determining job placement (Dickson and Rublee 2000, 104-106). In the 1980s, the influence of Party membership could not be entirely discounted.

However, scholars suggest a decade of drastic societal changes and the explosive growth of the private sector may have altered the cost-benefit analysis of later prospective party members. Dickson and Rublee postulated, "More recent data, when they become available, will likely show that the black path of higher education and the gold path of private entrepreneurship have increased in value" (Dickson and Rublee 2000, 109). This thesis aims to illustrate how continued societal reforms in the 1990s altered returns on higher education, private sector participation, and party membership in urban China.

## **Theoretical Framework**

### *Growth of Entrepreneurship*

Increasing opportunities for entrepreneurship drew more and more Chinese citizens into the private sector during the 1990s. During his travels in southern China in 1992, Deng Xiaoping advocated "leaping into the sea" (*xiahai*), a process of resigning from collective and state-owned units and establish private businesses (Chao and Myers 1998, 359; Hong 2004; 29). Though in decades past leaving ones work unit was considered taboo, millions of Chinese entered the private labor market to start their own companies. As these attitudes changed, more government officials and administration employees joined in the plunge.

The downsizing and privatization of State Owned Enterprises (SOEs) contributed to the growth of the private sector in the 1990s. Many managers of former SOEs benefitted greatly from already existing "assets, land and equipment," basically inheriting ready-made corporations (Hong 2004, 29). They quickly built off of their "new" firm's prior infrastructure, and many former SOEs became incredibly lucrative during the 1990s.

**Hypothesis 1: In a comparison of individual income, the returns on private sector participation will be higher in 2002 than in 1988.**

Though the researcher is confident about the statistical significance of private sector participation, the possibility of other outcomes cannot be ruled out. It is possible that due to the incredible increase of private entrepreneurs in the 1990s, their resulting competition have severely diminished estimated returns on private business involvement in terms of income. The total effect of the Asian Economic Crisis of the late 1990s may also have significantly damaged the overall health of the private sector, negatively influencing incomes.

*The Rise of Higher Education*

Enrollment in colleges and universities nearly quadrupled in the 1990s, which some argue towards the obtainment of higher education becoming the new normal in China (Guo 2005, 373). A previous study reported that since reforms began in 1978, returns to education in the form of income increased as of 1993 (Zhao and Zhou 2002, 362). This trend was expected to continue as market reforms advanced and labor continued to be reallocated according to market principles. Another study revealed that returns to education increased slightly between 1995 and 1999, a year of education associated with a 4% increase in income in 199 and a 5.5% increase in 1999 (Yueh 2004). Using new data, this thesis aims to further validate their results.

**Hypothesis 2: In a comparison of individual income, the returns on higher education will be higher in 2002 than in 1988.**

Though the researcher is confident in the above hypothesis, it is important to acknowledge a valid counterargument. It is reasonable to believe that an increase in the skilled labor supply (caused by increased college enrollment) would cause the returns for skilled workers to decrease in the form of lower incomes.

*Consistent Returns on CCP Membership*

Though some experts have reported a stagnation of returns on CCP membership in the 1990s, there are various theories that argue for its continued validity. Party membership grants its members an unmatched opportunity to forge informal and formal connections that may impact future business and income (Yueh 2004, 163). Other theories propose, “becoming a party member still carry with it certain privileges not readily available to non-party members, and at least provides an expedient way out of their current predicament” (Hong 2004, 34).

Other conclusive studies have suggested that Party membership has retained its influence despite modernizations. One study revealed that CCP membership’s impact on income increased from 11% to 17% from 1995 to 1999. The author postulated political connections increase in importance “as labor market moves away from administrative structure and managers have more discretion in determining wages” (Yueh 2004, 163). If this is the case, markets and politics may have coevolved, so both human capital and political capital have persistent and significant effects on economic rewards over time.

**Hypothesis 3: In a comparison of individual income, the returns Party membership will be relatively consistent in 2002 and 1988 despite extensive modernizations.**

However, there is still a significant possibility that the expansion of the private sector and rise in educational attainment marginalized Party membership’s impact on individual income. Some studies fail to show increase in Party influence and argue, “returns to party membership have declined” (Zhao and Zhou 2002, 363).

### **Data and Methodology**

This thesis will address two primary questions. First, this thesis will attempt to clarify what factors may have contributed to changes in the returns of Chinese Communist Party member. The researcher will explore economic, social, and political motivations for Party membership, focusing primarily on the changing economic landscape and increasingly

competitive job market as contributing factors. Conclusions will rely on qualitative research from existing primary and secondary sources, additionally supported by available public opinion survey data.

Secondly, the researcher will determine how the returns on CCP membership have changed in the 1990s relative to private sector participation and educational attainment. Does Communist Party membership still translate to higher income and improved career opportunities as it did in previous decades? To answer this question, the researcher will attempt to quantify the influence of CCP membership on individual income by means of regression analysis. After its initial release in 1988, the Chinese Household Income Project survey was conducted again in 1995 and 2002. The 1995 dataset contains 21,698 cases. The 2002 dataset contains 20,632 cases. Included in this 151-variable dataset are variables for Communist Party membership, income, and various employment characteristics. By analyzing this survey data, the researcher will attempt to determine if the influence CCP membership on future success changed between 1988 and 2002. A more specific construct for this quantitative research will be developed following additional research.

**Independent Variable: Individual Income**

**Dependent Variables: Party Membership, Occupation (to account for public/private sector employment), Years of Education, Gender, and Age.**

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