



# Rank, income and income inequality in urban China<sup>☆</sup>

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## ABSTRACT

While some workers in China attain senior professional level and senior cadre level status (Chuzhang and above), others attain middle rank including middle rank of professional and cadre (Keshang). This aspect of the Chinese labour force has attracted surprisingly little attention in the literature, a fact which this paper aims to rectify. We define various segments of the urban population in work-active ages and use data from the Chinese Income Project (CHIP) covering eastern, central and western China for 1995 and 2002. For 2002, persons of high rank make up 3% and persons of middle rank make up 14% of persons in work-active ages.

Factors that affect a person's likelihood of having high or middle rank are investigated by estimating a multinomial probit model. We find that education, age and gender strongly affect the probability of being employed as a worker of high rank. There is relatively little income inequality among workers of high rank as well as among workers of middle rank. Mean income and household wealth per capita of highly-ranked workers developed more favorably than for other segments of the population studied, and personal income is more polarized by segment in 2002 than in 1995. Workers of high rank, and to a lesser degree, workers of middle rank, are among the winners in economic terms while the increasingly large category of non-workers is the losers. Rates of return to education have increased but income function analysis indicates that this provides only a partial explanation for the increased favorable income situation for workers of high and middle ranks.

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## 1. Introduction

In the 1950s when China adopted a Soviet type of economic system, labour was centrally allocated within the cities. Workers typically had lifelong relations with the work unit where they originally started after having finished school. Wages were paid according to centrally determined wage scales in a system where workers were also compensated with in-kind payments, heavily subsidized housing, access to social services and social insurance benefits. At any given work unit, workers were categorized by rank in a system (Zhiwu Zhicheng Xilie) that perhaps most easily can be understood by likening it to how armed forces are organized. That is, there are various hierarchical levels that are based on occupation but also to some extent on personal characteristics. Many responsibilities signify a position of high rank. The procedures for obtaining a higher rank were well-known, and therefore it was (and still is) possible for the individual to plan a career. More highly-ranked workers received better remuneration than workers ranked lower. The highest-ranked workers were the economic elite.

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Since the 1980s, urban China has undergone large changes in most aspects of economic life. Notably, new forms of ownership have multiplied. Thus men and women who work in foreign-invested companies, are self-employed, or work in private or collective enterprises, are not covered by the ranking system and new economic elites have emerged. Just as important as the rank system covering fewer persons is that employment rates have fallen from their earlier very high levels. This is mainly due to structural changes during the second part of the 1990s when work units laid off workers on a large scale, resulting in a shrinking labour force and increased unemployment. Nonetheless, the system of rank has survived and continues to cover many workers. What has happened to the former economic elite? Has the economic situation of high-ranking workers deteriorated? Or have high-ranking workers retained their numbers and managed to “surf on the waves of change”? Given that many consider rank an important aspect of the job, and that it ensures higher remuneration and well-being, the answers to these questions are clearly of interest.

The issue of how elites have fared during the transition from planned to market economy has attracted much interest in the sociological literature. As early as 1989 Victor Nee published a paper proposing a general theory for societies in transition (Nee, 1989). It was based on a study of income for cadre and other households in rural China collected in 1984. According to Nee, the introduction and expansion of market institutions give rise to multiple bases of power, privilege, and change in the structure of opportunity and incentive. Further, human capital provides more income benefits, while the influence of political capital vanishes.

Claiming to be a general theory, the original paper of Nee has stimulated theoretical developments such as Walder (2003) as well as many studies of income among elites in countries in transition. Several studies have addressed the issue of remuneration of elites in urban China during transition, see for example Walder (1995), Bian and Logan (1996) and more recently Bian and Zhang (2004) as well as Chao and Nee (2005). While these studies do not explicitly focus on the workers' rank, studies that have used some thousand life histories collected in twenty cities in 1993 and 1994 do (see Zhou, Tuma, & Moen, 1997; Zhou & Hou, 1999; Walder, Li, & Treiman, 2000; Zhou, 2000; and, building on most of them, Zhou, 2004). These studies analyze entry into elite occupations, promotion in the rank system as well as the role of rank in income determination. They also investigate to what extent various cohorts of workers have fared differently.

Our aims for this paper are twofold. First we wish to better understand what makes some people more likely than others to possess high and middle-high rank, respectively. To what extent do education, age and gender play a role and are there intergenerational influences? Is rank status influenced by people's forced migration experience during the Cultural Revolution or from experiencing rural to urban migration? The second aim is to describe and analyze the development of personal income among people of high, middle and low ranks. In particular we are interested in whether or not the income advantage of being a high- or middle-ranked worker has changed, and whether a person's rank has an independent effect on personal money income when personal characteristics such as education, age and location are considered. This means that our aims resemble those of the sociological studies that have analyzed life histories to understand elite recruitment and how elite status affects income. Like these studies, we use data covering large parts of urban China. However, this study differs in several aspects from the sociological studies referred to above. First, we define labour market segments differently. Second, we apply another modeling strategy when analyzing the process of having elite status and to some extent also when analyzing income determination. Third, and perhaps most importantly, we study a more recent period; in addition to analyzing data for 1995 we also use data from 2002. Between these 2 years, state owned enterprises were put under heavy market pressure due to enterprise reform. This led to restructuring and layoffs and reform resulted in many workers in SOEs no longer being covered by the ranking system.<sup>1</sup> At the onset it can also be useful to make clear that while this paper attempts to provide new knowledge on the fate of the old economic elite, it does not address issues of recruitment and income situation of the new economic elite made up of entrepreneurs, private owners and top- and middle-management in the sectors not covered by the rank system.

We find that education and age positively affect the probability of achieving the rank of high and middle status. We also find that being male strongly affects the probability of having a high rank. The probability for reaching the rank of high or middle increases if the worker has migrated from rural China and is a member of CPC, while the opposite is true for a worker who was sent to the countryside during the Cultural Revolution.

Turning to the second research question we find that personal income within the categories workers of high rank and workers of middle rank is relatively equally distributed and has developed more favorably than for other segments. The workers of high rank and to a lesser degree those of middle rank, are among the winners in China's transition towards a market economy, as their personal income, disposable household per capita income, household wealth and housing per capita increased more rapidly than for most other categories. In contrast, the losers are made up of a larger and larger group of non-workers. In 2002, personal income in urban China is more polarized by labour market segment than in 1995.

The rest of the paper is laid out as follows: In the next section we discuss the context with emphasis on how workers are ranked, while the database for the study is presented in Section 3. In Section 4 we define the categories under study, report their relative numbers and provide basic information on their characteristics. The analysis of what affects people's labour market segment is addressed in Section 5. In Section 6, income among people belonging to different segments is analyzed. The paper ends with a concluding section.

## 2. Context

The ranking system (Zhiwu Zhicheng Xilie) was taken from the Soviet Union to China for its national government departments, institutions and state-owned enterprises. A rank was (and still is) important for the level of wages, but in many cases is even more

<sup>1</sup> There are also differences in how data was collected. The data the sociologists analyzed was collected at one point in time using many retrospective questions, while we use repeated cross-sections. Our data covers 89 cities, while the data analyzed by the sociologists is from 20 cities and oversamples larger cities. We analyze yearly income, while the sociologists had access to monthly income.

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