

Returns to schooling in China under planning and reform

Belton M. Fleisher^{a,*}, Xiaojun Wang^b

^a *The Ohio State University, 1945 N. High St., Columbus, OH 43210, USA*

^b *University of Hawaii at Manoa, 2424 Maile Way 527, Honolulu, HI 96822, USA*

Received 3 December 2004; revised 28 February 2005

Available online 25 April 2005

Fleisher, Belton M., and Wang, Xiaojun—Returns to schooling in China under planning and reform

Using retrospective data covering the period from 1950 to 1994, we find that schooling returns declined prior to the Cultural Revolution (CR) and returns for non-college graduates becoming negligible. Returns to those with some college education remained low compared to other countries. Consistent with other studies, returns to schooling did not recover from their CR low until the 1990s. Increases in returns were not associated directly with changing jobs or with taking new-economy jobs. The workers most likely to leave jobs in the traditional ownership sector for jobs in the private or joint-venture categories were those who entered the labor force prior to 1967. *Journal of Comparative Economics* 33 (2) (2005) 265–277. The Ohio State University, 1945 N. High St., Columbus, OH 43210, USA; University of Hawaii at Manoa, 2424 Maile Way 527, Honolulu, HI 96822, USA. © 2005 Association for Comparative Economic Studies. Published by Elsevier Inc. All rights reserved.

JEL classification: J31; J24; O15

Keywords: Returns to schooling; China; Planned economy; Economic reform

* Corresponding author.

E-mail addresses: fleisher.1@osu.edu (B.M. Fleisher), xiaojun@hawaii.edu (X. Wang).

1. Introduction and background

From the inception of economic reform in China into the early 1990s, wage differences by level of skill, occupation, and schooling remained narrow. Hence, returns to higher education were low in comparison with those in other industrialized and industrializing countries, including some smaller transition economies, such as the Czech Republic, Slovenia, and Bulgaria.¹ China's low personal returns to schooling may have been due to relatively slow erosion of the wage grid that prevailed under central planning (Knight and Song, 1991; Liu, 1998; Meng, 2000). However, this simple explanation faces at least two difficulties. First, the low relative pay of workers with higher levels of education appears to have persisted longer into the reform period than might be expected based on the experiences of the Central and East European transition economies. Second, wage compression has been observed in enterprises of all ownership types in China, as Fleisher and Wang (2001) attest.

Recent research suggests that reform and marketization are finally contributing to an increase in the relative wages of educated workers, although the evidence is not universal. Li (2003) and Zhang and Zhao (2002) report results that are considerably different from those in earlier studies. Li uses data from the urban sample of the 1995 China Household Income Project (CHIP-95) conducted in 1996 and based on a sample of 6928 households and 21,688 individuals. Zhang and Zhao use data on employees aged 16 to 60 from twelve Urban Household Surveys, 1988 through 1999. The CHIP-95 data have the advantage of including information on work hours; these are negatively correlated with hourly pay, leading to a negative bias in estimated returns when weekly or monthly income is the dependent variable. Moreover, the CHIP-95 data contain more accurate information on actual work experience than do previous surveys. Li's work is different from earlier research on private returns to schooling in China because his estimation is based on the year of first job, namely, before 1980, 1980 to 1987, and 1988 to 1995. Individuals whose first job occurred prior to 1980 have schooling of an older vintage and are more likely to have been affected by the educational biases of the Cultural Revolution. Li asserts that year of first job is likely to reflect the grandfathering of the wage differentials inherent in the old wage grid. In a society in which inter-firm mobility has been limited severely by well-known economic and political constraints, older workers find it relatively more difficult to take advantage of opportunities offered by economic reform. Li's econometric results indicate that overall returns to schooling in China remain low, on average, and that the increase in the return to schooling has been most notable for college graduates. Zhang and Zhao find that, by 1999, returns to schooling estimated with an ordinary Mincer equation had risen to 11.5%, which is quite respectable by international standards. These authors also report an extra earnings premium for college graduates.

The main goal of this paper is to identify the conditions that affected the relatively slow increase of returns to schooling in China during the reform period. Given the findings of Li (2003) and Zhang and Zhao (2002) as well as the importance of college-educated

¹ Zhang and Zhao (2002), Li (2003), and the references cited in Fleisher and Wang (2001) are relevant for China; Münich et al. (in press), Orazem and Vodopivec (1995), and Jones and Ilayperuma Simon (2005) provide information for other countries.

Download English Version:

<https://daneshyari.com/en/article/9554404>

Download Persian Version:

<https://daneshyari.com/article/9554404>

[Daneshyari.com](https://daneshyari.com)