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Urban Elites and Income Differential in China: 1988–1995

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Abstract

Urban elites and their relative income levels are windows on the emerging socioeconomic order in China. We add to the research literature a new view that economic sectors are the institutional contexts in which different elites seek their material gains. Conducting a trend analysis with 1988 and 1995 national surveys of urban China, we found that political, administrative, and managerial elites maintained consistently higher levels of income relative to professional elites, but this applied mainly to a monopoly sector of industries that were restricted to state operation. Managers in the open industry sector that allowed for free entry and exile experienced income declines relative to professionals within the sector, even though the former had moderately higher income levels than the latter in 1988 and 1995. All elite groups in the monopoly sector retained higher incomes than their counterparts in the open sector in 1995, but not necessarily in 1988.

Urban elites and their material compensation have been at the core of a theory about social class in state socialism. Djilas's (1957) and Szelényi's (1978, 1983) early works inspired an interest in 'socialist redistributive elite' in Communist regimes. The most recent developments examine why political elites pursue market opportunities (Nee and Lian, 1994), how political and professional elites entail distinct pathways of career

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mobility (Walder, 1995; Walder, Li, and Treiman, 2000), and what an emerging business elite implies for social-class structure in reforming state socialism (Pearson, 1997; Eyal, Szelényi, and Townsley, 1998; Wank, 1999; So, 2001). Using data from two comparable national surveys of urban China, this paper documents the changing income differential between political and professional elites from 1988 to 1995.

Fundamental changes have taken place in China's class structure and income stratification for the past two decades, especially since 1992 (see Bian, 2002 for a review). Retreating from the Maoist ideology of egalitarianism and the Cultural Revolution policies of 'de-stratification' (Parish, 1981, 1984; Whyte and Parish, 1984), Deng and post-Deng reforms remade China's class structure and caused income inequality to increase significantly (Riskin, Zhao, and Li, 2001). The most recent and most comprehensive study ever conducted by Chinese sociologists (Lu, 2002) reports that in terms of public awareness and income level, China in the first year of the twenty-first century had a ten-stratum hierarchy: state officials, managers, professionals, and entrepreneurs on top; clerical staff and household business owners (*getihu*) in the middle; and service workers, industrial labor, peasants, and the unemployed and semi-unemployed on the lower end. This paper is not intended to evaluate all these strata and their relative incomes, but focuses on some elite categories – officials, managers, and professionals.

Officials, managers, and professionals are old elites and existed in Mao's years. Their life chances are windows on the emerging socioeconomic order. If these old elites maintain their relative economic position, then this can be understood as a source of China's political stability. If, on the other hand, officials gradually give way to managers, then a 'corporate China' may be in the making. Yet a third speculation is that both officials and managers may lose to professionals because the emerging socioeconomic order may reward professionals' human capital more than political and managerial resources. Limited by the survey data analyzed in this paper, we are not able to include private entrepreneurs, a growing and expanding 'new' elite group that still makes up only a small proportion of China's urban population.[1]

This paper is organized as follows. First, we review sociological models about China's elites. Second, we evaluate competing explanations about how income differentials among elites may change as a result of market reforms. Next, we test these explanations by analyzing two comparable national surveys from the 1988 and 1995 Chinese Household Income Projects (henceforth CHIP). In the conclusion, we draw upon our findings to raise comments about future research of China's elites.

[1] CHIP surveys, in both 1988 and 1995, have data for owners of small family firms but not those of sizable private enterprises. This data restriction disallowed for any meaningful discussion about economic status of entrepreneurs as compared with that of political, managerial, and professional elites. A comparison among the latter groups in this paper helps address the concerns first raised by Walder (1995) in his dual elite model.

Sociological models on China's elites

The dual elite model

Szelényi's (1978, 1983) pioneering research on 'socialist redistributive elites' pointed to the political basis of class structure in state socialism: Communist party officials control and distribute economic surpluses from public properties. In the 1970s Hungary's professionals were thought to be 'on the road' to this class power (Konrad and Szelényi, 1979), but up until the mid-1980s this had not yet happened in China (Walder, 1995). Walder instead found China's cadre administrators and professionals remained divided with paths of mobility leading into distinctive careers. One career path is that of higher education leading to a professional career with high occupational prestige. The other career path is that of higher education combined with Communist party membership leading to an administrative career rewarded with both occupational prestige and material incentives. In other words, China's professionals were denied power and privileges that cadre administrators were able to obtain. An event history analysis of a later survey shows that this 'dual elite model' came into existence in the 1950s and Deng's market-oriented reforms made little alteration to it by the late 1990s (Walder *et al.*, 2000).

The dual elite model has inspired rigorous studies about political institutions and processes whereby political loyalty through party membership and human capital of higher education and expertise are rewarded differently (Zhou, Tuma, and Moen, 1996, 1997; Bian, Shu, and Logan, 2001; Li and Walder, 2001; Zang, 2001). It remains to be seen whether or not market reforms increase material returns for human capital more than for political loyalty, and in such a manner that political cadres gradually lose to professional elites during 'market transition' (Nee, 1989, 1996). Empirical findings so far are mixed (Nee and Matthew, 1996; Nee and Cao, 1999; Cao and Nee, 2000; Zhou, 2000), but most previous studies did not directly compare cadre administrators with professionals but used manual workers as a reference group in their analyses. This paper will conduct such a comparison with a focus on income differentials between cadre administrators and professionals from 1988 to 1995.

The heterogeneous cadre-elite model

A homogeneous cadre-elite assumes that cadres' power comes from a unified and stable source – the party-state's monopoly over the national economy – despite market reforms. To be sure, Mao's rank-and-file cadres were organized in a unified personnel system for office appointments, promotion, and incentive allocation (Davis, 2000). However, this system has been greatly weakened by Deng's reforms, with emerging market institutions providing an alternative path to career success and economic prosperity (Nee and Lian, 1994). Under the reform directive for separating party politics and administrative management (*dang zheng fen jia*), political and managerial cadres began to perform different duties and exercise power in separate lines of authority from the mid-1980s onward (Lee, 1991). In government bureaucracy, consequently, party cadres and state officials began featuring different profiles and receiving different levels of compensation because of their separate sources of power (Zang, 2001). In a reformed system, enterprise managers, which make up a large part of the cadre elite, no longer have lifetime employment security, and in an increasingly competitive economy, their post and compensation increasingly are dependent upon their performances rather than their political loyalty (Naughton, 1995).

Nee and Cao (1999: 807) argue that in the emerging market economy, 'the administrative elite must compete for power and privileges in markets in which comparative advantage is secured by means of human capital, defined as competence acquired through formal education and work experience'. In their most recent analysis of the 1995 CHIP survey, Nee and Cao (2002) suggest that Mao's cadres have become disintegrated and divided into three distinctive categories. First, 'cadres' refers to party and government officials and, just like pre-reform 'redistributive elite', this group's power and privileges come primarily from the Communist party-state hierarchy. Second, administrators refers to heads of non-profit organizations, and their power and privileges lie in the public properties under their control. Third, 'managers' are the heads of state and non-state enterprises, and their power and privileges are associated mostly with their managerial experience and the profitability of their enterprises. Nee and Cao found no significant differences in the profiles of various cadre elites, but their profiles do differ significantly from those of professional elites: party membership is more significantly associated with an individual's inclusion in a cadre-elite group than in a professional group. In other words, political loyalty and political capital are the more important resources for promotion into a position of political, administrative, or managerial authority than for getting a professional position, which confirms an early finding from a single city (Bian *et al.*, 2001). The construction of three cadre-elite groups allows documenting income differentials between multiple cadre elites and professional elites. No one has yet provided these analyses, and the present paper aims to accomplish that goal.

The sector as institutional context model: a new view

Our view is that elites' power and privileges are conditional upon economic sectors in which these elites operate. Facing the growth of market institutions, the Deng and post-Deng regimes consciously maintained their power bases through monopoly control over industries of strategic importance to the regime, and in these monopoly sectors old elites continue to gain, although they may lose out to entrepreneurs and professionals in open, competitive sectors. In essence, economic sectors have become institutional contexts that structure market and non-market opportunities for organizations and therefore are the structural constraints for elites to exercise power and retain privileges.

An important development led by post-1992 reforms was the restructuring and segmentation of the national economy, mostly as a result of the interaction between marketization and state transformation (Bian and Zhang, 2002). The urban industries, monopolized by the state before reforms, were restructured into two sectors: the open, competitive sector with free entry for non-state firms and the closed, monopoly sector that is restricted to state operation. While the former sector consists of commerce, service, and manufacturing industries, the latter sector embodies industries with strategic importance for the national economy, providing nationalized products and services (for example, the telecommunication industry), exercising macro-economic coordination (for example, the banking industry), or playing key roles in political and ideological control (for example, the education industry and mass media industry).

These two sectors operate under different rules of the game, monopoly and competition, which determine how managers and professionals retain their power and privileges. In the open sector, managers must necessarily rely on their expertise and competence, and their enterprises' enhanced marketability and profitability are the primary source of their income. Managers in the monopoly sector, in contrast, secure a high-income level mostly from their enterprises' monopoly profits, their political influences over state policy makers, and their rent-seeking abilities as they work between a regulative state and an emerging market system (Lin, 2000). Likewise, professionals in the monopoly sector may have higher returns than their counterparts in the competitive sector, but not necessarily as a return to human capital but as a share of their organizations' monopoly profits. Because economic segmentation between monopoly and open sectors alters the sources of power and level of income for managers and professionals, economic sectors should be an ingredient in the definition and classification of China's elites in the reform era.

Explaining income differentials

The market transition explanation

Nee's market transition theory (1989, 1991, 1996) predicts that the growth of market economies will result in a relative decline in income level for redistributive cadres as compared with that for entrepreneurs and professionals. The underlying logic of this prediction is that state redistribution will decline as markets grow, thus limiting redistributive cadres' income-earning ability when they lose control of economic resources to 'direct producers'. Using a neoclassic economic understanding about markets, Nee asserts that markets value efficiency, reward entrepreneurship, expertise, experience, and productive human capital, and denounce administrative intervention, interest politics, party loyalty, and political capital. Consequently, market-oriented reforms will lead to relative decline in power and privileges for redistributive cadres.

Nee (2001) has recently reminded us to be cautious when operationalizing the concept of redistributive cadre. In the reform era, he argues, not all cadres (*ganbu*) as they are conventionally known in China meet the scholarly characterization of redistributive cadres. A review of Nee and Cao's (2002) scheme of multiple cadre elites shows that to them only 'party and government officials' are redistributive cadres and 'administrators' and 'managers' are not. For Nee and Cao, reform-era administrators and especially managers 'work in the market', and their power and privileges are not at all redistributive in nature. On the contrary, these elites themselves are an important element in the production of economic surpluses, and unlike state and party officials, they play no role in the redistribution of the surpluses. We note that China's economy remains mixed (Parish and Michelson, 1996) and that both hierarchy and markets may be the sources of power and privileges for all these elite groups (Bian and Logan, 1996; Zhou, 2000). In the extent to which elites draw power and privileges from the party-state hierarchy, Nee's 'officials', 'administrators', and 'managers' form a variable of descending order in redistributive power.

The power persistence explanation

The power persistence explanation (Bian and Logan, 1996) predicts that redistributive cadres' relatively higher level of compensation to professionals' may remain unchanged during reforms. There are several lines of reasoning for this prediction. First, under a durable party-state in China, hierarchy and markets may coexist to create parallel paths to prosperity (Bian and Logan, 1996). Second, emerging economic markets may benefit the able and the better educated, but political markets operate to protect the interests of the party elite and the less able (Parish and Michelson, 1996). And, finally, markets and interest politics adjust to each other, and their co-evolution characterizes the entire 'transition' process (Zhou, 2000). When the Communist party-state collapses, as it did in Hungary, cadre power may convert to network resources and private ownership of productive properties (Rona-Tas, 1994).

The power persistence explanation has encouraged researchers to study the complicated course of marketization in China, but it has also been hampered badly by feasibility design and inadequate operationalizations of the concept 'redistributive power'. Some researchers used respondents reported *de facto* cadre as the measure of the concept; others adopted broad occupational labels of 'high-ranking' and 'low-ranking' cadres; still others classified job titles into theoretical constructs of redistributive power. None of these operations address Nee's concerns adequately for his market transition theory, which calls for differentiation between officials and managers, a distinction that was not made in previous studies. With the CHIP surveys, we make a preliminary attempt to classify cadres into separate categories and test the explanations of market transition and power persistence accordingly.

The market-and-state interaction explanation

The market-and-state interaction explanation predicts that the impact of market reforms on income distribution is conditional upon the economic sectors in which a worker earns his/her income. Elsewhere, Bian and Zhang (2002) advanced this view to explain persistent high-income levels in China's state-monopolized industries despite growing non-state economies during post-1992 market reforms. In this paper, we apply this view to explain income differentials among elites working in different sectors.

Bian and Zhang (2002: Appendix B) indicate that the open sector is an arena in which free entry and exile put all forms of economic organizations under competition. It implies that managerial and professional elites in the open sector must prove efficient and productive to earn a high income. The operation of labor markets grants experienced managers and professional experts the bargaining power for compensation; it depends on local labor markets to decide whether managerial ability or professional expertise is in relative shortage and therefore specially favored.

In the state monopoly sector, organizations gain 'monopoly profits': earnings that are generated because of state monopoly in certain industries and extra budgetary revenues that state agencies and institutions make because of their regulative and intervening authorities. These monopoly profits are free of market competition and controlled and distributed in various forms of income by organizations' decision-makers – party and state officials, administrators, and managers from state monopoly firms. Professionals are expected to get their monopoly profit shares, but at a level probably significantly less than officials, administrators, and managers simply because they are excluded from the decision-making process about how to distribute them. Professionals' bargaining power would be increased by a fast-growing open sector, but it also could be hampered if pay scales are not as high as in monopoly firms; after all, monopoly firms can more easily generate earnings and distribute them to their managers and professionals. We leave this empirical question to our data analysis.

One clear advantage of differentiating between monopoly and open sectors is the ability to compare officials and administrators in the monopoly sector with professionals in the open sector. Because state monopoly and intervention are the new sources of power for officials and administrators, officials and administrators depend mainly on their political position and political capitals for material gains and are the legacy of Szelényi's 'socialist redistributive elite' in the reform era. Professionals in the open sector, in contrast, work in a market environment, are subject to labor market pressures, and earn their income from the human capital they use in their jobs. Compared with professionals in the monopoly sector and with managers in the open sector, professionals in the open sector are probably more market driven. Therefore, for market transition theory's prediction to be credible, officials or administrators should experience a relative decline in income levels compared with professionals in the open sector. For the power persistent explanation to be credible, officials and administrators must maintain their income level relative to open-sector professionals.

Data and variables

We conduct a trend analysis of 1988 and 1995 urban CHIP data (for details about these data, see Griffin and Zhao, 1992; Khan and Riskin, 1998; Riskin, Zhao, and Li, 2001) with a focus on changing income differentials among political, managerial, and professional elites. Although data from an earlier year, say 1980, would allow for a 'before and after reform' comparison, the eight years from 1988 to 1995 saw rapid growth of market institutions, especially after Deng Xiaoping's South China tour and talks in 1992.

Therefore, our analysis of the 1988 and 1995 CHIP data examines the extent to which the post-1992 expansion and growth of market institutions restructured the patterns of income distribution in Chinese cities.

The CHIP surveys, designed and conducted by a group of economists from the Chinese Academy of Social Sciences, had separate samples for urban and rural China, and the urban samples are used in this paper. The sampling was based on the frame of the State Statistical Bureau's national annual survey of household economics. Although this frame included all 31 province-level units, the 1988 CHIP included China's capital, Beijing, and nine provinces – Anhui, Gansu, Guangdong, Henan, Hubei, Jiangsu, Liaoning, Shanxi, and Yunnan in its sample; in 1995 Sichuan province was added, and in that year the survey was financially constrained to sample fewer households. Notably, Shanghai and Tianjin, which have been much studied by US-based sociologists, were not included. Nevertheless the CHIP's 11 provincial units provide good coverage of regions with varying paces of reforms and different levels of development (Riskin, Zhao, and Li, 2001). In each of the lower levels (cities, city districts, neighborhoods, and households), sampling units were first arranged according to average income, and then a systematic sampling procedure was used to select every unit with a fixed interval. Information about all wage earners in each sampled household was collected.

For the purpose of this paper, we include only cadres (*ganbu*), leaders (*danwei fuzeren*), and professionals (*zhuanye jishu renyuan*) from the CHIP surveys. Specifically, we include those respondents aged 18–69, whose self-identified jobs at the time of the survey were in an administrative or a professional occupation in state and urban collective organizations; respondents working in the private sector, in a technical or clerical job, and all other respondents are excluded. We found 3,678 and 3,896 wage earners from the 1988 and 1995 CHIP, respectively, who held either an administrative or a professional job, or both. When a professional (for example, a physician or a professor) had an administrative position (for example, heading a department in which he/she works) and reported it so in the survey, we consider him/her in the administrative rather than professional category. We use OLS models to estimate income differentials between respondents in various elite job categories. To our advantage, these models allow for estimation of total income differentials as well as of net income differentials of other variables.

Our income variable is *total yearly cash income* from each respondent's main job. Income from second and third jobs is not considered because very few respondents voluntarily offered the information. We also do not include non-working income, such as interests, dividends, and cash gifts. Information about income-in-kind, though collected in the CHIP surveys, was poorly reported. In the OLS models, log-transformed income is used, and this translates income differentials into percentage differences.

Our classification of elites is based on respondents' reported wage jobs. To allow for various tests required by the theoretical models just reviewed, we construct several variables. Under the assumption that urban elites are a homogenous elite, *cadre* is a dichotomous variable with officials, administrators, and managers all recognized as cadre (=1) and professionals as non-cadre (=0). Under the assumption that urban elites are a heterogeneous elite, and consistent with Nee and Cao (2002), what is defined as cadre in the previous exercise is decomposed into three subcategories: (1) *Official* includes anyone who leads or works as a cadre in government bureaucracy, party office, or mass organization (political organization in actuality); (2) *Administrators* includes heads and other administrators in non-profit institutions; (3) *Manager* includes anyone who performs managerial duty in a state-owned enterprise or a urban collective. To satisfy the sector-and-elite interaction model, we further classify managers and professionals by relating them to the monopoly and competitive sectors in which they work their main jobs. Because their organizations are by definition in the monopoly sector, no *officials* and *administrators* are identified with the competitive sector.

To estimate net income differentials of the effects of elites' structural and individual characteristics, we include in our OLS models a few important control variables. Age is respondent-reported age at the year of the survey, and a constructed age-square variable is used in OLS models to estimate the possible nonlinear effects of age on income. Respondents' education is measured by five levels of elementary school or lower, middle school, high school, vocational school, and college or higher. Gender (male = 1) and party membership (party = 1) are dummy variables. Respondents' workplaces are organized into three categories of central state, local state, and local collectives. Finally, a series of dummy variables are used to identify each sampled provincial unit to control for regional variation in income.

Results and interpretations

Stability and Change in Elite Profiles

Like Nee and Cao (2002), we did not find significant differences in the profiles of different kinds of cadre elites (officials, administrators, and managers). Thus, Table 1 displays profiles for cadre elites as one group and for professionals as the other. Within each year, a z-value was obtained to show the level of statistical significance for mean differences between cadre group and professional group for each concerned variable. Most mean differences are significant, suggesting that cadre elites and professional elites in urban China are not from the same segments of the population. Most notably they differ in gender, age, education, and party membership, but they are located fairly equally among different levels and types of workplaces. A cadre elite, on average, is more likely to be male, older, less educated, and hold a party membership than a professional elite.

Between the 1988 and 1995 profiles, education and party membership reveal the most notable changes. In 1988, slightly more than 30% of cadres had a college education or higher, but about 44% of professionals already reached that level. The 14% difference was cut in half to about 7% in 1995 due to a greater increase in college-educated cadres (42%) than in college-educated professionals (49%). We do not yet know what caused

Table 1. *Elite Profiles: Means and Mean Differences, 1988 and 1995 Urban CHIP*

	1988			1995		
Profile variable	Cadre elites	Professional elites	*Z-value*	Cadre elites	Professional elites	*Z-value*
Gender (male = 1)	0.851	0.524	−22.274	0.765	0.513	*−16.576*
Age	46.544	41.213	−16.626	47.746	42.773	*−14.270*
Age square	2234.9	1796.9	−15.494	2378.4	1951.9	*−13.026*
Primary school or Lower	0.063	0.024	−4.826	0.027	0.009	*−3.616*
Middle school	0.271	0.116	−10.287	0.195	0.099	*−7.762*
High School	0.199	0.140	−4.239	0.174	0.127	*−3.863*
Vocational School	0.162	0.277	8.032	0.187	0.280	*6.699*
College or Higher	0.303	0.439	7.903	0.417	0.485	*4.037*
Party membership (member = 1)	0.810	0.341	−30.812	0.743	0.289	*−30.448*
High rank state workplace	0.504	0.514	0.525	0.341	0.359	*1.086*
Local state workplace	0.404	0.420	0.876	0.579	0.572	*−0.412*
Urban collective enterprise	0.092	0.066	−2.498	0.080	0.069	*−1.183*
Number of respondents	*1049*	*2629*		*1345*	*2551*	

Notes on the distribution of elites:

1988: Of the 1,049 cadre elites, 29.9% are officials, 13.8% administrators, and 56.2% managers (12.2% in the monopoly sector and 44.0% in the open sector). Of the 2,629 professional elites, 64.4% in the monopoly sector and 35.6% in the open sector.

1995: Of the 1,345 cadre elites, 30.1% are officials, 15.8% administrators, and 54.2% managers (10.0% in the monopoly sector and 44.2% in the open sector). Of the 2,551 professional elites, 54.2% in the monopoly sector and 45.8% in the open sector.

this change.[2] With regard to party membership, 81% of cadres and slightly more than 34% of professionals were party members in 1988, and the 47% gap remained essentially the same in 1995 except that both cadres and professionals observed a simultaneous drop in percentage of party members (74.3% for cadres and 28.9% for professionals). The drop in party memberships was probably caused by reduced recruitment efforts by the party, or simply because there were fewer applicants in more recent years than before. Both scenarios sharply contrast with a boosted number of college-educated cadres and professionals, implying weakened party membership and rising educational credentialism in urban China.

Total income differentials

Table 2 presents results from OLS models in which income differentials among elites are estimated without additional predictor variables. We begin with the dual-elite model. In both 1988 and 1995, cadres earned substantially more income than did professionals, by about 12% ($e^{.110}$) and 9% ($e^{.085}$), respectively. The slight decline in the differential from 1988 to 1995 is statistically insignificant. This suggests that if one assumes a homogenous cadre elite, cadres' power and privileges were not in decline relative to professionals' from 1988 to 1995; instead, their relative income advantages were persistent and largely unaffected by post-1992 reforms.

The heterogeneous cadre-elite model decomposes cadre elite into officials, administrators, and managers. With professionals as the common reference group, this model shows that officials and administrators had significant higher incomes than professionals did in both 1988 and 1995. Although the gaps enlarged by 1995, the sizes of the enlargements are statistically insignificant. Managers, on the other hand, also had significantly higher incomes than professionals did in both years, but managers' income advantage was also significantly reduced in 1995; the differential margin was 13% ($e^{.125}$) in 1988 but decreased to 5% ($e^{.048}$) in 1995. According to Nee and Cao (2002), reform-era officials and administrators are more redistributive elites than are managers. Thus, the findings from the heterogeneous cadre-elite model lend no support for the hypothesis that market developments cause a relative decline in income levels of redistributive elites. The results show that it is managers who experienced such decline relative to professionals from 1988 to 1995.

The sector-as-institutional-context model uses professionals in the open sector (market-driven professionals) as a reference group. If market transition theory is credible, and because China's post-1992 reforms were successful in creating market

[2] One likely cause may be that cadres received party sponsorship for college education on the job, a pattern that was popular among young party members (Li and Walder, 2001). It is also possible that the new policy of recruiting college graduates into cadres was responsible for this change (Lee, 1991). Still a third possibility is that college-educated professionals were in large numbers turned into cadres because post-1992 reforms called upon professional 'experts' to take on managerial responsibilities (Naughton, 1995). None of these can be explored with the CHIP data, unfortunately.

Table 2. *Unstandardized OLS Coefficients from the Regression of Logarithm Total Yearly Income on Elite Categories with Controls on Provinces, 1988 and 1995 Urban CHIP*

	Dual elite model			Heterogeneous cadre-elite model			Sector-as-institutional context model		
Predictors	1988	1995	*Z*	1988	1995	*Z*	1988	1995	*Z*
Elite categories									
Cadre	0.110***	0.085***							
Official				0.073***	0.106***		0.076***	0.159***	>
Administrator				0.128***	0.174***		0.132***	0.227***	>
Manager				0.125***	0.048**	<			
In monopoly sector							0.126***	0.211***	>
In open sector							0.130***	0.076***	<
Professional	omitted	omitted		omitted	omitted				
In monopoly sector							0.005	0.096***	>
In open sector							omitted	omitted	
Dummies for Provinces	(not presented)			(not presented)			(not presented)		
Constant	7.682***	9.062**		7.681***	9.058**		7.677***	9.002***	
R-square	*0.181*	*0.212*		*0.183*	*0.216*		*0.183*	*0.226*	
Number of respondents	3678	3896		3678	3896		3678	3896	

T-test for coefficients: * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$, two tailed.
Z-test for difference between coefficients: ">" 1995 greater than 1988; "<" 1995 less than 1988.

institutions, then from 1988 to 1995 officials and administrators should experience relative decline in income levels as compared with professionals in the open sector. However, the opposite is revealed in the model: officials and administrators have significantly higher incomes than open-sector professionals in both years, and the differential margins are also significantly larger in 1995 than in 1988. Managers in the monopoly sector may be seen as having more political power than their counterparts in the open sector and should, according to market transition theory, experience relative decline. But again, the opposite is true: monopoly sector managers have higher income than open-sector professionals in both years, and the differential margin is not smaller but larger in 1995 than in 1988. In contrast, although managers have higher income than professionals did in both years in the open sector, their advantage is seriously weakened in 1995, and open-sector managers in fact experience a relative decline. Under the assumptions that the open sector is a market economy and that open-sector managers are neither officials nor administrators, this particular finding ought not to be interpreted as supporting the relative-decline-of-redistributive-power hypothesis. On the contrary, both officials and administrators have persistently higher incomes than professionals between 1988 and 1995. Meanwhile, within the monopoly sector managers also have persistent income advantages over professionals.

One interesting comparison is between professionals in the monopoly and in the open sectors. In 1988, professionals from the two sectors earn about the same amount of income (an insignificant coefficient of .005). In 1995, when market institutions presumably became stronger in the open sector, those professionals in the open sector have a lower income than their counterparts in the monopoly sector by a 10% margin ($e^{.096}$). So market competitiveness did not increase open-sector professionals' earning ability. Instead, officials, administrators, managers, and professionals in the monopoly sector seem to have benefited more significantly from post-1992 reforms than managers and professionals in the open sector.

Net income differentials

Because cadre elites and professional elites have different profiles in terms of gender, age, education, and party membership, their income differentials may be due to the differences in these profiles. Table 3 presents results from OLS models in which variables for these and other profiles are included as statistical controls.

The dual elite model shows that much of the income differential between cadre elite and professional elite is indeed due to their profiles. When profile variables are included in the model, income differential between cadre and professional becomes small in magnitude and insignificant statistically. Instead, gender, age, and party membership matter for income, and the effects of these variables are in favor of cadres, not professionals, as a group. Education effect is positive; the higher the education, the higher the income one earns. Because professionals as a group have a higher education than cadres as a group, education effect helps professionals more than cadres. But this differential effect is declining in significance because, as seen in Table 1, the

Table 3. *Unstandardized OLS Coefficients from the Regression of Logarithm Total Yearly Income on Elite Categories and Elite Profiles with Controls on Provinces, 1988 and 1995 Urban CHIP*

	Dual elite model			Heterogeneous cadre-elite model			Sector-as-institutional context model		
Predictors	1988	1995	*Z*	1988	1995	*Z*	1988	1995	*Z*
Elite Categories									
Cadre	0.013	0.014							
Official				−0.037*	0.021	>	−0.040*	0.065**	>
Administrator				−0.004	0.063*	>	−0.007	0.108***	>
Manager				0.045**	−0.004	<			
In the monopoly sector							−0.025	0.153***	>
In the pen sector							0.047**	0.010	
Professional	omitted	omitted		omitted	omitted				
In the monopoly sector							−0.005	0.084***	>
In the open sector							omitted	omitted	
Elite Profiles									
Gender (male = 1)	0.072***	0.050***		0.070***	0.052***		0.070***	0.059***	
Age	0.062***	0.058***		0.061***	0.058***		0.061***	0.059***	
Age square	−0.001***	−0.001***		−0.001***	−0.001***		−0.001***	−0.001***	
Elementary school or less[a]	−0.038	−0.115*		−0.039	−0.113*		−0.038	−0.122*	
High school[a]	0.006	0.067**	>	0.011	0.066**	>	−0.011	0.064**	>
Vocational school[a]	0.022	0.074***	>	0.026†	0.071***	>	0.026†	0.064**	
College or higher[a]	0.085***	0.148***	>	0.089***	0.144***	>	0.090***	0.134***	>
Party membership (member = 1)	0.047***	0.064***		0.049***	0.063***		0.049***	0.065***	
Central state workplace[b]	0.087***	0.242***	>	0.097***	0.237***	>	0.099***	0.219***	>
Local state workplace[b]	0.036*	0.141***	>	0.046**	0.137***	>	0.048**	0.120***	>
Dummies for Provinces	(not presented)			(not presented)			(not presented)		
Constant	6.025***	7.334		6.024***	7.337***		6.026***	7.295***	
R-square	*0.435*	*0.332*		*0.438*	*0.333*		*0.438*	*0.342*	

T-test for coefficients: † $p < .10$ * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$, two tailed.

Z-test for difference between coefficients: ">" 1995 greater than 1988; "<" 1995 less than 1988.

Reference category omitted: a = middle school; b = urban collective. Numbers of respondents for all models: 3678 in 1988 and 3896 in 1995.

cadre-professional education (especially in college education) gap is rapidly narrowing. On the whole, cadre elites retained income advantage over professionals in 1988 and 1995 because of both their cadre power and their favorable profiles.

The heterogeneous cadre-elite model by and large confirms the above observation about cadre elites' persistent advantages over professionals, but we note a few interesting findings. First, officials' income advantage over professionals is due totally to their favorable profiles; after profile variables are included in the model, income differential becomes almost nil in 1988 and 1995. Second, administrators' income advantages are due largely to their favorable profiles, and their advantages only strengthened in 1995. Third, managers have a moderate total income advantage over professionals in 1988 and 1995 (Table 2), but their net advantage is all gone in 1995 (Table 3), causing them to experience a relative decline.

As shown in the sector-as-institutional-context model, working in the monopoly sector gives officials, administrators, managers, and professionals a consistent income advantage over open-sector professionals and managers in 1995. Compared with their monopoly-sector counterparts, moreover, open-sector professionals and managers experience relative decline in income levels from 1988 to 1995. Finally, officials and administrators, or reform-era redistributive elites, have income advantages over monopoly-sector professionals in both years, but these advantages do not change over time and are mainly due to their more favorable profiles.

Conclusion and discussion

Many studies on China's post-1980 stratification system have examined the question of 'who wins and who looses' during market reforms. This paper draws attention to two winners: cadre elites and professional elites. The 1988 and 1995 CHIP surveys are probably the best national sampling surveys of urban China available to date, and our analysis of the data leads to the following conclusions.

Cadre elites, however defined and classified, did not experience a relative decline in income to professional elites. On the contrary, from 1988 to 1995, officials, administrators, and managers had large, persistent, and probably growing income advantages over professionals. Much of these advantages come from the fact that officials, administrators, and managers are more likely to be males, older, and belong to the Communist party, thus having more favorable profiles that allow them to earn higher income than professionals. Professionals as a group have higher education and especially college education that would boost anyone's income to a higher level in both 1988 and 1995. But the education gap was not huge, and it was rapidly reduced from 1988 to 1995 because of a greater increase in college-educated cadres (officials, administrators, and managers) than in college-educated professionals. Although future trends about the cadre–professional gap in college education should be studied, on the whole the research findings support the power persistence explanation and reject the relative-decline-of-redistributive-power hypothesis of the market transition theory.

Decline in relative-income level indeed occurred, not to officials or administrators, but to managers within the open sector. There, managers had a moderate yet undeniable income advantage over professionals in 1988 and 1995, but this advantage was substantially reduced (from a 14% margin to an 8% margin) over the seven years. This, however, does not support either the theme about the declining redistributive power or the theme of persistent redistributive power, because reform-era managers in the open sector are in no way considered 'socialist redistributors'. If anything, managers in the open sector are market driven, work in an increasingly competitive economy, and do not have the kind of political power that is preserved from the previous system for party and state officials and administrators. If the data are valid, this particular finding may imply that state and collective enterprise managers in the open sector do not yet possess desirable market skills and managerial expertise, causing their income advantages over professionals to decline over time. It implies that these managers are soon to be replaced by better able professionals with both technical expertise and managerial skills. On the other hand, there is a high probability that managers in the open sector, as well as in the monopoly sector, may intentionally hide 'gray' and 'black' sources of income (Lin, 2000), causing serious income underreporting. These possible explanations need be explored in future research.

The 1995 survey data show a consistent pattern about higher income levels for all elites in the monopoly sector than for those in the open sector. Although not necessarily the case in 1988, in 1995 managers and professionals in the monopoly sector had higher income levels than their counterparts in the open sector. A more striking finding is that managers in the open sector had higher income levels than professionals in the monopoly sector in 1988, but in 1995 the differential changed direction. All these findings make it clear that the state monopoly sector considerably increased its income-generating capacity through post-1992 reforms and its monopoly profits raised pay levels for every elite group in the sector.

These findings and conclusions formulate an overarching message: China's income distribution is a phenomenon of political economy. By 1995, markets had certainly grown with many more industries open to non-state operations than in 1988, but the party-state maintained its monopoly over industries of strategic importance. This segmented economy protected the interests of political, managerial, and professional elites in the monopoly sector and left managers and professionals in the open sector unprotected. It is in the open sector that professional expertise appeared to be specially valued, causing manager–professional income differential to narrow. To what extent the party-state can retain its monopoly over strategically important industries in which 'old' elites stand strong on their feet remains to be seen. In light of China's entry to the World Trade Organization perhaps it will not be long before we see changes in industry restructuring. But it is unclear whether or not China's 'old' elites will lose to professionals, entrepreneurs, and new elites in the near and distant futures. Researchers are expected to seek answers from their future studies.

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