

Earning Differentials Between State and Non-State Jobs in Urban China

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Abstract

Since the onset of China's urban reforms in 1983, one of China's greatest challenges was transforming its planned labour allocation system into a well-functioning market for labour. One way to evaluate this transformation is to investigate labour mobility between state and non-state jobs.

In this paper, we model earning differentials between state and non-state jobs in urban China using the Chinese Household Income Project Series (CHIPS) data, during the period 1988-2002.

The conventional estimation of earning equations shows a significant premium for working in the state sector. In line with previous literature, we find evidence of increasing returns to education, a gender earning differential and a premium for Communist Party membership.

Concerned with selection bias, we then employ a two-step approach. First, we model the probability of having a job in the state sector. Besides education and experience, we find that both individual's membership of Chinese Communist Party (CCP) and his (her) family history in the CCP or other Democratic Parties in China matter.

In the second step, we condition our modelling of earning in state and non-state jobs on this selection process. There is premium for working in the state sector. While part of this is explained by better demographics, region and sector specific effects, there is still a large proportion of the differential explained by endogenous selection and hence family networks. Family history in the CCP or other Democratic Parties in China identifies this selection while having no direct impact on earning determination thereafter.

The "dual" track approach behind a transition to a market economy was meant to promote an endogenous selection of workers between the state and private sector. Unlike that theoretical model, we find that the state sector still offers the better jobs in the labour market.

These findings shed light on the nature of labour mobility in the urban labour market in China and provide insights for future policy making.

Keywords : Party Networks, Earning Differentials, State and Non-State Jobs, Labour Mobility