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Does Communist party membership pay? Estimating the economic returns to party membership in the labor market in China

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ABSTRACT

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Many studies have found that Chinese Communist party membership brings economic benefits to party members, but some studies also argue that the premium associated with party membership is merely due to members' higher levels of ability and advantageous family backgrounds. The lack of consensus on the economic returns of party membership implies that the role of party membership is not well understood. This study estimates the economic returns to Chinese Communist party membership using complementary approaches to address the endogeneity of party membership status: propensity score matching and instrumental variable. Although the magnitudes of these estimates vary across estimators, all the estimates show positive economic returns to party membership. This paper also examines possible mechanisms for how party membership may bring benefits to members and provides evidence that party membership may generate political capital, but not social capital in the labor market in China. *Journal of Comparative Economics* 000 (2016) 1–21. The State University of New York at Buffalo, Economics, 441 Fronczak Hall, Buffalo, NY 14260, United States.

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1. Introduction

Many studies have found that Communist party members receive a wage premium in the labor market in China relative to non-Communist party members (Appleton et al., 2009; Appleton et al., 2005; Dickson and Rublee, 2000; Johnson and Chow, 1997; Knight and Yueh, 2008; Liu, 2003; Wu and Xie, 2003; Zhou, 2000). These findings suggest that party membership is an important determinant of wages in the Chinese labor market. However, most of these results are based on ordinary least squares (OLS) estimations that may be subject to bias due to endogeneity. Since the assignment of party membership is not random, a systematic difference between party members and non-party members in unobservable characteristics, such as higher ability level or advantageous family background, may drive these OLS results. Addressing this

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endogeneity was the motivation behind the within-twin fixed effect (FE) estimator in Li et al. (2007).² Based on estimation using the within-twin FE estimator, they concluded that the premium associated with party membership is simply due to members' unobserved higher abilities and advantageous family backgrounds rather than party membership. However, some economists argue that within-twin FE estimators do not always solve omitted variable bias problems (Bound and Solon, 1999; Neumark, 1999) since even twins have unobservable differences which, even if small, could be drivers in different choices observed between twins – such as party membership. In addition, if small, unobserved differences really are driving choices, then within-twin FE estimators may exacerbate bias caused by measurement error. This suggests that the literature on the economic returns to party membership need to be re-evaluated. This study revisits estimating economic returns to party membership by adopting complementary approaches: propensity score matching (PSM) and instrumental variables (IV).

Another aspect of Communist party membership that is not well understood is the role it plays in the labor market. To the extent that a substantial wage premium truly exists, it is important to understand the mechanism for how membership brings this benefit to members in the labor market. I explore this mechanism by using a unique institutional feature in China known as the “government job assignment program.”

The Chinese labor market is unique in that the government has dominant control over employment through its job assignment program.³ Although it is supposed to be impartial and reflect the competence of the applicant, it is often based on *ad hoc* decisions of the person in authority (Bian, 1997). Given the complete dominance of the Communist party in China's political system, party membership signals an important political affiliation. It is, therefore, possible that government authorities may show preferential treatment towards party members when allocating jobs.⁴ If members receive greater benefits in the government job assignment program compared to non-party members with similar human capital, party membership may be a type of political capital.

Communist party membership may also be a source of social capital benefits in the labor market. One of the benefits party provides for their members is access to contact information of all other party members (Bian, 1997). In China, interpersonal relationships are an important aspect of both economic and non-economic life (Bian, 1994, 1997). Many workers obtain job information through social networking, so if party membership results in network expansion, then members may be better off than non-members in the labor market. However, there is no direct evidence that party membership helps to build wider social networks and party members gain benefit through network expansion. I explore this aspect in this study.

The purposes of this study are (1) to examine the causal effect of party membership, and (2) to provide a better understanding of how party membership may bring benefits in the labor market in China. Specifically, I implement complementary approaches to address the endogeneity in estimating returns to the party membership: PSM and IV. In the IV approach, I use a father's party membership as an instrument for an individual's party membership conditional on parental occupations and educational attainment. With respect to the mechanism of how membership may bring benefits, I take advantage of a distinct institutional feature of China (the job assignment program) and interpersonal relationship information available in the data to explore the following questions: Do party members benefit from preferential treatment from the government in job assignment (i.e., political capital)? Is membership a way to expand social networks (i.e., social capital)?

The rest of the paper is organized as follows. Section 2 explains briefly the institutional background of party membership. Section 3 discusses relevant empirical studies estimating the returns to party membership. Section 4 presents empirical methods. Section 5 describes the data. Section 6 discusses empirical findings and Section 7 concludes by providing a summary of results.

2. Background on the Chinese Communist party

The political system in China is completely controlled by the Communist party. The Communist party has maintained its power by strict screening and continued scrutiny of members after joining the party, as well as induced loyalty (Appleton et al., 2009). The conjecture that party members have higher levels of ability than non-party members is plausible given the stringent selection process for party members. Applicants must go through various stages after filing written applications before they can become members. After submitting applications, they must demonstrate active participation in political activities, volunteer for community activities, and study current policies. Each applicant is assigned to a party member from the branch authority and applicants are evaluated on their progress. In other words, to be accepted as a member, applicants are required to prove a combination of superior performance, social skills, a commitment to political activity, and knowledge of public policies (Bian et al., 2001).

A unique characteristic of the Chinese labor market is that the government assigns jobs to workers. The job assignment program was originally based on the Maoist ideology that labor is a national resource, which nearly eliminated private labor rights (Bian, 1994). It was implemented in the 1950s to control the size and distribution of urban jobs in the labor

² They argue that identical twins have similar genetic ability and the same family background, so party membership differences are not likely to be due to these characteristics.

³ The job assignment program is described in greater detail in the following section. Although there was a radical change in the program, Table 4 shows that it is still the manner through which more than half of workers get their jobs.

⁴ Bian (1997) used this institutional feature to study the effect of personal social networks, which he asserts can influence the job assignment decision process.

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