

Political Office and Household Wealth: Rural China in the Deng Era

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ABSTRACT Evidence from sample surveys and local field studies have long supported opposed arguments about the impact of market reform on the value of political office in the rural economy. This article reviews the evidence, describes a gradual convergence in findings, and identifies unresolved questions about qualitatively different local paths of development. Examining previously unexploited data from a nationally representative 1996 survey, a resolution of the remaining issues becomes evident. The value of political office initially is very modest, as the first private entrepreneurs reaped large incomes. However, subsequent economic development led to rapid increases in the earning power of cadres and their kin, and by the end of the Deng era the returns to political office were roughly equal to those of private entrepreneurs. The political advantages were not limited to regions that industrialized rapidly under collective ownership: they were large even in regions where the private economy was most extensive. However, despite evidence of large and enduring political advantages, those who reaped wealth from political position were only a small fraction of the newly rich, the vast majority of whom achieved wealth without current or past office-holding or kinship ties to cadres.

For more than two decades after the demise of Maoist collectivism, a resurgent market economy deeply transformed the social structure of rural China. By the mid-1980s, peasant households had already returned to historical marketing patterns of agricultural produce and other sidelines and services.¹ By the turn of the century almost 140 million individuals, or 30 per cent of the rural labour force, earned regular incomes from wage labour outside agriculture.² Some 20 million rural households had registered individual family enterprises, and 2 million of them had already grown into substantial private firms.³ A massive rural industrial sector grew up under public ownership in the 1980s, employing more than 80 million at its height, and then was extensively privatized in the 1990s and is now less than half its former size. While these developments have been widely noted in studies of rural industrialization and income inequality, there is some uncertainty about their impact on village political and economic elites.

1. G. William Skinner, "Rural marketing in China: repression and revival," *The China Quarterly*, No. 103 (1985), pp. 393–413.

2. State Statistical Bureau, *Zhongguo tongji nianjian 2000 (China Statistical Yearbook 2000)* (Beijing: Zhongguo tongji chubanshe, 2000), p. 369.

3. *Ibid.* p.19; *Zhongguo xiangzhen qiye nianjian 2001 (China Rural Enterprise Yearbook 2001)* (Beijing: Zhongguo nongye chubanshe, 2001), p. 95.

Before the land reform that accompanied the Chinese revolution, rural social structures were defined primarily by access to land. Radical reform in the early 1950s removed land as a criterion for rural social differentiation, creating an almost universal small-holding peasantry. The collectivization of the mid-1950s eliminated family farming, and sharply curtailed household production and rural markets, replacing them with collective production for state purchasing agencies. The commune system created a hierarchy of political posts that extended into every village, and village leaders (in production brigades) controlled access to more lucrative non-agricultural jobs in the village and beyond.⁴

As collective agriculture was disbanded after 1978, land was re-allocated to rural households, effectively returning rural China to the situation that prevailed in the early 1950s.⁵ Rural social differentiation began anew, based not on access to land but on access to wage labour and opportunities to market goods and services produced by households and newly formed private enterprises. Rural social structure was defined by movement out of subsistence agriculture and into cash crops, and even more importantly by movement out of agriculture entirely, into periodic wage labour, regular salaried jobs and private family enterprise. It was therefore inevitable that a new elite – though not a landlord class – would emerge.

But who would comprise this new elite – or more to the point, how new would this “new” elite be? Viewpoints differed according to people’s assessment of the value of rural political office – and kinship ties to cadres – in an emerging market economy. Unlike the early 1950s, the post-Mao countryside contained millions of rural cadres who had managed the collective economy for decades. These cadres had accumulated managerial experience and political and economic contacts outside the village that were potentially useful in conducting business. Moreover, they initially retained the ability to assess fees on peasant enterprise and regulate private economic activity.⁶ They are thought to have enjoyed preferential access to loans from local credit co-operatives and bank branches, and in many regions they retained control of publicly owned non-agricultural assets or established new enterprises with public funds, developing them further under

4. Jean C. Oi, *State and Peasant in Contemporary China: The Political Economy of Village Government* (Berkeley: University of California Press, 1989); David Zweig, *Agrarian Radicalism in China, 1968–1981* (Cambridge, MA: Harvard University Press, 1989).

5. Oi, *State and Peasant*; Yunxiang Yan, “The impact of rural reform on economic and social stratification in a Chinese village,” *Australian Journal of Chinese Affairs*, No. 27 (1992), pp. 1–23.

6. Oi, *State and Peasant*; Victor Nee, “Peasant entrepreneurship and the politics of regulation in China,” in Victor Nee and David Stark (eds.), *Remaking the Economic Institutions of Socialism: China and Eastern Europe* (Stanford: Stanford University Press, 1989), pp. 169–207; Scott Rozelle, “Decision-making in China’s rural economy: the linkages between village leaders and farm households,” *The China Quarterly*, No. 137 (1994), pp. 99–124.

collective ownership and management.⁷ They are also thought to have the ability to arrange well-paid non-agricultural jobs for family members. Therefore rural cadres initially had the kind of managerial and regulatory powers that would provide them with lucrative income opportunities and powers of patronage.

Portrayals of the rural economy that emphasized cadre power and prosperity were based on the observation that rural cadres managed collectively owned township and village enterprises, and that they received large salaries and bonuses when their firms prospered.⁸ These studies tended to neglect the new class of private entrepreneurs as relatively small contributors to the rural industrial boom of the 1980s. As studies of rural economic organization rather than social stratification, they did not compare the relative size and prosperity of the political-managerial elite and private entrepreneurs. It was assumed that their managerial powers afforded rural cadres large income advantages; however the public industrial sector began a pronounced contraction in the early 1990s that continues to the present. Large numbers of public firms were closed, or were leased or sold outright to private individuals, inevitably raising questions about the durability of this presumed economic base for cadre power and prosperity.⁹

Other studies have not tied cadre incomes so directly to managerial power, and have shown that the households of rural office-holders enjoy considerable income advantages. A detailed survey of one rural county showed that cadres and Party members receive returns to labour many times those of ordinary households, and that these

7. Oi, *State and Peasant*; Jean C. Oi, "The fate of the collective after the commune," in Deborah Davis and Ezra F. Vogel (eds.), *Chinese Society on the Eve of Tiananmen: The Impact of Reform* (Cambridge, MA: Harvard University Press, 1990), pp. 15–36; Christine P. W. Wong, "Interpreting rural industrial growth in the post-Mao period," *Modern China*, Vol. 14, No. 1 (1988), pp. 3–30.

8. Hongyi Chen and Scott Rozelle, "Leaders, managers, and the organization of township and village enterprises in China," *Journal of Development Economics*, Vol. 60, No. 2 (1999), pp. 529–557; Nan Lin and Chih-Jou Jay Chen, "Local elites as officials and owners: shareholding and property rights in Daqiuizhuang," in Jean C. Oi and Andrew G. Walder (eds.), *Property Rights and Economic Reform in China* (Stanford: Stanford University Press, 1999), pp. 145–170; Jean C. Oi, "Fiscal reform and the economic foundations of local state corporatism in China," *World Politics*, Vol. 45, No. 1 (October 1992), pp. 99–126.

9. James Kai-sing Kung, "The evolution of property rights in village enterprises: the case of Wuxi county," in Oi and Walder, *Property Rights and Economic Reform*, pp. 95–120; Hongbin Li and Scott Rozelle, "Saving or stripping rural industry: an analysis of privatization and efficiency in China," *Agricultural Economics*, Vol. 23, No. 3 (2003), pp. 241–52; Jean C. Oi, "The evolution of local state corporatism," in Andrew G. Walder (ed.), *Zouping in Transition: The Process of Reform in Rural North China*, (Cambridge, MA: Harvard University Press, 1998), pp. 62–85; Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley: University of California Press, 1999); Susan Whiting, "The regional evolution of ownership forms: shareholding cooperatives and rural industry in Shanghai and Wenzhou," in Oi and Walder, *Property Rights and Economic Reform*, pp. 171–200; Susan Whiting, *Power and Wealth in Rural China: The Political Economy of Institutional Change*, (Cambridge: Cambridge University Press, 2001).

advantages are much larger in non-agricultural activities.¹⁰ Analysis of a large national dataset from the late 1980s showed that cadre households maintain income advantages across the country, and that they tend to take advantage of the type of income opportunity that is most widely available in a given locality, whether agriculture, wages or household enterprise.¹¹

Arguments emphasizing the transformative impact of markets drew their strongest early support from studies conducted along the south-east coast, where private entrepreneurship revived the earliest, and where it subsequently dominated economic growth. Studies of Wenzhou (温州), coastal Fujian, and the Zhu [Pearl] river delta portrayed rural cadres as supporting cast in an economic boom dominated by wealthy private entrepreneurs.¹² These entrepreneurs often achieved success without reliance on political influence, relying on kinship and native place networks to manage and finance their growing business activities, or on their ties to overseas relatives who were able to bring capital and expertise back to their native place.

One early survey of two suburban counties near Xiamen (厦门) in 1985 provided striking evidence that market reform quickly eroded cadre advantages. Cadres were found to have no net income advantages after controlling for household characteristics and participation in entrepreneurship, and in fact cadre households were found to fall behind ordinary households if they did not themselves enter into entrepreneurship.¹³ Further analysis of the same survey also showed that cadres were not more likely than others to become entrepreneurs, but when they did so, they made only marginally larger incomes.¹⁴ This suggested that the spread of markets and private

10. Sarah Cook, "Work, wealth and power in agriculture: do political connections affect the returns to household labor?" in Walder, *Zouping in Transition*, pp. 157–183; Jonathan Morduch and Terry Sicular, "Politics, growth, and inequality in rural China: does it pay to join the party?" *Journal of Public Economics*, Vol. 77, No. 1 (2000), pp. 331–356.

11. William L. Parish and Ethan Michelson, "Politics and markets: dual transformations," *American Journal of Sociology*, Vol. 101, No. 4 (1996), pp. 1042–59; William L. Parish, Xiaoye Zhe, and Fang Li, "Nonfarm work and the marketization of the Chinese countryside," *The China Quarterly*, No. 143 (1995), pp. 697–730.

12. Anita Chan, Richard Madsen, and Jonathan Unger, *Chen Village Under Mao and Deng* (Berkeley: University of California Press, 1992); Chih-jou Jay Chen, "Local institutions and the transformation of property rights in southern Fujian," in Oi and Walder, *Property Rights and Economic Reform*, pp. 49–70; Yia-ling Liu, "Reform from below: the private economy and local politics in the rural industrialization of Wenzhou," *The China Quarterly*, No. 130 (1992), pp. 293–316; Kristen Parris, "Local initiative and national reform: the Wenzhou model of development," *The China Quarterly*, No. 134 (1993), pp. 242–263; Jonathan Unger and Anita Chan, "Inheritors of the boom: private enterprise and the role of local government in a rural south China township," *The China Journal*, No. 42 (1999), pp. 45–74.

13. Victor Nee, "A theory of market transition: from redistribution to markets in state socialism," *American Sociological Review*, No. 54 (1989), pp. 663–681.

14. Victor Nee, "Social inequalities in reforming state socialism: between redistribution and markets in China," *American Sociological Review*, No. 56 (1991), pp. 267–282.

entrepreneurship would have a strong corrosive effect on cadre power and wealth – a conclusion that stimulated a great deal of interest.

Later evidence from a 1989 multi-province survey showed that the Xiamen findings did not extend very far nationwide, where cadre households still enjoyed large net income advantages that were moderated only in the south-eastern coastal provinces of Guangdong and Fujian.¹⁵ This evidence about the persistence of cadre prosperity, and growing evidence of the rise of rural public enterprise in the 1980s, led to more guarded claims about the corrosive effects of market opportunity. In a transitional period characterized by a mixed economy cadres could maintain their advantages and even expand them; however, in the long run, the advantages of cadres should shrink relative to the new market-oriented private entrepreneurs.¹⁶ The anticipated decline in cadre political power and economic position should therefore occur more slowly in some regions than others, as different regions followed different transitional paths to a more fully privatized economy.¹⁷

Other studies have indicated that cadre advantages do not decline with the expansion of a private economy. One national income survey suggested that cadre household strategies adapted to the structure of the local economy.¹⁸ In the late 1980s, where agriculture was dominant, cadre households earned more from agriculture and its sidelines; where private enterprise was well developed, they were more likely to combine cadre incomes with income from a family business; where rural industrialization was most advanced, cadre households had more members in salaried employment and earned higher incomes from this source. A subsequent national survey conducted in 1996 found that cadre income advantages were stable across regions, regardless of income levels or the proportion of income from private entrepreneurship or salaried employment. The study found, to the contrary, that the income advantages of entrepreneurs were smaller in regions with widespread wage employment, pointing to the opposite conclusion: private household entrepreneurship, not cadre position, reaped initially large income advantages that declined with economic growth.¹⁹

These studies have left two unanswered questions. The first is whether these broad statistical generalizations at the national level might mask sharp regional differences due to vast differences in levels

15. See Victor Nee, "The emergence of a market society: changing mechanisms of stratification in China," *American Journal of Sociology*, Vol. 101, No. 4 (1996), pp. 908–949.

16. Nee, "Social inequalities, and Nee, "The emergence of a market society."

17. Victor Nee and Yang Cao, "Path dependent societal transformation: stratification in hybrid mixed economies," *Theory and Society*, Vol. 28, No. 6 (1999), pp. 799–834.

18. Parish and Michelson, "Politics and markets."

19. Andrew G. Walder, "Markets and income inequality in rural China: political advantage in an expanding economy," *American Sociological Review*, Vol. 67, No. 2 (2002), pp. 231–253.

and qualitative forms of economic development. Were cadre households more or less likely to diversify into family business as market opportunities expanded? Whether they did so or not, did they earn significantly larger incomes than other entrepreneurs? The “cadre-entrepreneur” household has received little attention since the early studies based on suburban Xiamen, which found them to be relatively rare and to enjoy only modest income advantages.²⁰ But there is no reason to assume that early trends were a preview of much later national developments. How common were cadre-entrepreneur households nationwide at the end of the Deng era, and how large were their income advantages, if any? To answer these questions, we need to look more closely at distinctive local regions that represent extremes in the highly diverse national spectrum of rural development.

The second unresolved question is about village kinship networks. Income analyses based on the household have tended to ignore the fact that rural Chinese families diversify their economic strategies in ways that cut across the “household” as defined in social surveys.²¹ A household may formally divide into two, but this does not end the economic co-operation between the two units, nor does it even imply that they will not reside in the same place. This is true between the father’s household and the households of sons, and it may also be true among the households of the brothers (and potentially other close relatives). If one of these formally separate households contains a cadre, the advantages in economic opportunity will be likely to extend to other closely connected households in the family. Households that do not contain a cadre might appear to have no apparent access to political advantage, where in fact they may have intimate kinship ties to rural office-holders. Past studies have not incorporated this obvious feature of Chinese village social structure into their analyses of household wealth. What is the impact of kinship ties to rural cadres, and is this impact contingent on local economic context?

In sum, answers to certain crucial questions remain elusive. The accumulation of more local field studies is likely to raise as many new questions as resolve old ones. We have already learned that localities vary in striking ways, and we have learned to be sceptical of arguments that regions judged more advanced by some criterion represent the future of others.²² Surveys conducted in the 1980s charted the first stages of rural transformation, but there are reasons to doubt projection of early trends into the future. A thriving

20. See also Ole Odgaard, “Entrepreneurs and elite formation in rural China,” *Australian Journal of Chinese Affairs*, No. 28 (1992), pp. 89–108.

21. Myron L. Cohen, “Family management and family division in contemporary rural China,” *The China Quarterly*, No. 130 (1992), pp. 357–377; Gregory A. Ruf, *Cadres and Kin: Making a Socialist Village in West China, 1921–1991* (Stanford: Stanford University Press, 1998).

22. Andrew G. Walder and Jean C. Oi, “Property rights in the Chinese economy: contours of the process of change,” in Oi and Walder, *Property Rights and Economic Reform*, pp. 1–24.

Chinese-language literature on private entrepreneurship and rural social structure has found widely varying evidence of the extent to which the new private entrepreneurs are drawn from the rural leadership, differences attributable to the varied localities, time frame and definitions of groups used in different studies.²³ Large national studies based on massive samples gathered by official state agencies – such as the Chinese Household Income Project²⁴ – permit detailed analysis of incomes of a current cross-section of rural households, but they contain limited information about the structure, social and occupational characteristics, and histories of households, and nothing about their kinship ties to other households.

The 1996 survey, “Life histories and social change in contemporary China,” was designed to address these questions. The data from this nationally representative sample of rural households provide a snapshot of the degree of change at the end of the Deng era.²⁵ They have already been employed in publications that have examined the relationship of cadre income advantages to levels of wage versus private household income in the local economy.²⁶ However, the data contain unexploited information that enables us to pursue the unanswered questions identified above. The data contain information about the economies of 100 villages in 50 counties, across the entire range of levels and types of local economic development. This permits a more meaningful qualitative comparison of localities.

The survey collected three kinds of information rarely gathered in the past. The most important is a complete educational and activity history of the respondent. Life histories yield an annual record of all activities from the first year that the individual entered school, permitting detailed analysis of the movement of individuals into and

23. See, for example, Dai Jianzhong, “1997 nian quanguo siying qiye chouyang diaocha bufen shuju” (“Partial results from the 1997 National Survey of Private Enterprises”), in Zhang Houyi and Ming Lizhi (eds.), *Zhongguo siying qiye fazhan baogao 1999 (Report on the Development of China’s Private Enterprises 1999)* (Beijing: Shehui kexue wenxian chubanshe, 1999), pp. 101–148; Zhang Houyi, “Siying qiye zhu jiecheng zai woguo shehui jiegou zhong de diwei” (“The position of the private entrepreneur stratum in our country’s social structure”), *Zhongguo shehui kexue (Social Sciences in China)*, No. 90 (1994), pp. 100–116; and Jia Ting and Wang Kaicheng, “Siying qiye zhu jiecheng zai zhongguo de jueqi he fazhan” (“The rise and development of the private entrepreneur stratum in China”), *Zhongguo shehui kexue*, No. 56 (1989), pp. 89–100.

24. Azizur Rahman Khan, Keith Griffin, Carl Riskin and Zhao Renwei, “Household income and its distribution in China,” *The China Quarterly*, No. 132 (1992), pp. 1029–61; Azizur Rahman Khan and Carl Riskin, “Income and inequality in China: composition, distribution and growth of household income, 1988 to 1995,” *The China Quarterly*, No. 154 (1998), pp. 221–253; Azizur Rahman Khan and Carl Riskin, *Inequality and Poverty in China in the Age of Globalization* (Oxford: Oxford University Press, 2001).

25. The study drew a nationally representative sample of Chinese adults. A multi-staged, stratified probability sample of 100 villages in 50 counties yielded information on 3,003 rural households. Documentation of the sampling procedures, fieldwork, questionnaire, variable definitions and the dataset itself are all publicly available through the Social Science Data Center of the University of California, Los Angeles.

26. See Walder, “Markets and income inequality.”

out of different rural occupations.²⁷ The second is a set of network questions designed to identify households that had kinship or other ties with current or past rural office-holders.²⁸ The third is a set of questions about the backgrounds and activities of spouses, parents, parents-in-law and grandparents at different points in time. The data therefore permit the analysis of current household incomes, the past and present occupational activities of household members, and kinship ties to cadres.

The Question of Political Advantage: Power, Kinship, and Wealth

Deng-era reforms freed households to pursue incomes in non-agricultural activities, and access to non-agricultural income quickly became the route to household wealth. Almost all the households in the sample (94.4 per cent) were still engaged in the cultivation of crops in 1996, and close to half (43.9 per cent) were also engaged in agricultural sidelines (primarily animal husbandry). However, income from these sources contributed less than half of household income.

Non-agricultural income was earned from two sources. Wage labour was already the largest source of income in 1996: more than half the households (51.7 per cent) received significant wage income, and 35.4 per cent of all income in the sample was from this source. Household enterprise was the second source: 21.3 per cent of sampled households operated an enterprise. While most earned less than 400 *yuan* annually from their activities, the top 5 per cent averaged more than 30,000 *yuan*. Non-agricultural household enterprise generated 21.7 per cent of all household income.

Positions in rural social structure are defined by access to different kinds of off-farm income.²⁹ We can describe this structure by categorizing households according to their relationship to political authorities and their sources of income. The first distinction is whether the household contains at least one rural office holder. We identified these households with a question that asked directly whether someone in the household worked as a “cadre,” and we supplemented these responses by examining the verbatim descriptions

27. See Xueguang Zhou, Nancy Brandon Tuma, and Phyllis Moen, “Stratification dynamics under state socialism: the case of urban China,” *Social Forces*, Vol. 74, No. 3 (1996), pp. 759–796; Xueguang Zhou and Liren Hou, “Children of the Cultural Revolution: the state and the life course in the People’s Republic of China,” *American Sociological Review*, Vol. 64, No. 1 (1999), pp. 12–36.

28. We describe the questions below. Similar network items have been used in prior surveys of urban China. See Peter Blau, Danching Ruan and Monica Ardelt, “Interpersonal choice and networks in China,” *Social Forces*, Vol. 69, No. 4 (1991), pp. 1037–62; and Yanjie Bian, “*Guanxi* and the allocation of urban jobs in China,” *The China Quarterly*, No. 140 (1994), pp. 971–999.

29. See Lu Xueyi, Zhang Houyi and Zhang Qizi, “Zhuaxing shiqi nongmin de jieceng fenhua: dui Dazhai, Liuzhuang, Huaxi deng 13 ge cunzhuang de shizheng yanjiu” (“Stratification of the peasantry in a period of transition: an empirical study of 13 villages like Dazhai, Liuzhuang, and Huaxi”), *Zhongguo shehui kexue*, No. 76 (1992), pp. 137–152.

of occupations for both respondent and spouse.³⁰ The sample contains 114 “cadre households.” The second distinction identified households that had a close relative who was a current cadre (defined as the child, parent, sibling, cousin, uncle or aunt of the respondent).³¹ There were 361 such households in the sample. The final distinction was based on source of income: whether the respondent answered “yes” to a question of whether the household operated an “enterprise” other than an agricultural sideline. There are 640 of these “entrepreneur” households.

Because households often diversify their economic activities, these three categories are not mutually exclusive. We cross-classify households into six types for comparison. The first type of household is labelled “ordinary” – one that contains no cadre, has no cadre kin and does not operate a household enterprise. This is the largest category by far (see Table 1). The second type is “cadre kin” – households that have cadre relatives, but do not contain a cadre or run a household enterprise. The “cadre” household, which contains at least one cadre but had no household enterprise, is the third type. None of these 3 types of households operate an enterprise, so the only distinctions among them are according to office-holding or kinship ties with office-holders. The final three types make the same political and kinship distinctions among the 640 entrepreneur households in the sample. The “entrepreneur” households contain no office-holders and have no kinship ties with one. The “cadre kin-entrepreneur” households do have such kinship ties, but contain no cadre. And finally, a very small “cadre-entrepreneur” group (only 1 per cent of the sample) contains a cadre and at the same time operates a family business.

Table 1 shows wide income variations across these six household types. These group differences do not take into account wide variations in the number of working family members per household. It is possible that cadre and entrepreneur households – much wealthier than the others – contain larger numbers of working adults, and that differences in total income may partially reflect household size. To adjust for the different number of wage earners in households,

30. There is ambiguity in the definition of “cadre,” which may mean any village leader, or more properly, someone on the state payroll at the township level or above (which village cadres are not). We therefore examined the verbatim descriptions as a check, and were able to identify 50% more cadres than the usual question identified. See the extended discussion in Walder, “Markets and income inequality.”

31. The respondent was asked whether he or she maintained regular contact with someone who is now or was in the past a “leading cadre,” and then a series of questions was asked about the relationship between that person and the respondent, the number of such positions held, and the ending and starting date for holding the position. See Donald J. Treiman (ed.), *Life Histories and Social Change in Contemporary China: Provisional Codebook* (Los Angeles: UCLA Institute for Social Science Research, Social Science Data Archive, 1998). We define “cadre kin” as relatively close kinship ties with a current cadre. The terms for cousin, uncle and aunt used in the questionnaire refer only to the siblings of one’s parents or to their offspring.

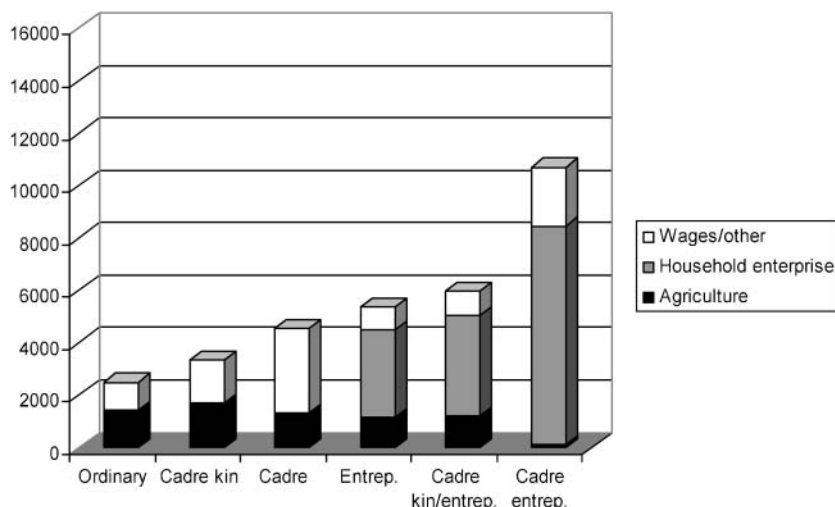
Table 1: Average Household Incomes and their Sources, by Household Type, Rural China, 1996

| <i>Household type</i> | <i>Average annual household income</i> | <i>Agriculture (% of all income)</i> | <i>Household enterprise (% of all income)</i> | <i>Wages/other (% of all income)</i> | <i>Number of households (% of sample)</i> |
|----------------------------|--|--------------------------------------|---|--------------------------------------|---|
| Ordinary | 5,668 | 3,267 (57.6) | 0 | 2,401 (42.4) | 2,020 (67.3) |
| Cadre kin | 7,421 | 3,815 (51.4) | 0 | 3,606 (48.6) | 261 (8.7) |
| Cadre | 10,534 | 3,262 (31.0) | 0 | 7,272 (69.0) | 82 (2.7) |
| Entrepreneur | 12,039 | 2,852 (23.7) | 6,888 (57.2) | 2,299 (19.1) | 508 (16.9) |
| Cadre kin/ entrepreneur | 12,010 | 2,845 (23.7) | 6,951 (57.9) | 2,214 (18.4) | 100 (3.3) |
| Cadre/ entrepreneur | 36,436 | 2,348 (6.4) | 26,655 (73.2) | 7,433 (20.4) | 32 (1.0) |
| Entire sample | 7,540 | 3,247 (43.0) | 1,633 (21.7) | 2,666 (35.3) | 3,003 |

we divide the household incomes from each source by the number of working adults in the household, giving a clearer understanding of the “earning power” of each household type.

Figure 1 depicts the earning power of household types. There is a clear upward progression from the ordinary to the cadre-entrepreneur household. There is also a clear pattern within the entrepreneur and non-entrepreneur groups. Within each group, the households with no

Figure 1: Annual Earning Power of Employed Household Members, by Source of Income and Type of Household, 1996 (yuan per employed household member)



political ties have the lowest earning power, those with kinship ties to cadres have tangible income advantages and cadre households have even larger advantages. The more direct the connection to rural political office the larger the earning power, whether from wages or private enterprise.

Although the focus is on rural office-holding, we should not neglect the obvious advantages of entrepreneurship. Our definition of “entrepreneur,” moreover, is broad: it includes the entire range of household enterprises, and many of these are very small undertakings. Among entrepreneurs with no current political ties, the top 20 per cent (101 households) are very wealthy indeed – much more so than the 82 cadre households that do not run a family business. Entrepreneurship is clearly a new road to wealth for large numbers of households.

However, wealthy entrepreneur households with no current political ties may have had them in the recent past: can this partially account for their high incomes? We examined the activity histories of all household members and close kin to identify households with former cadres or former cadre relatives. Remarkably few of the entrepreneur households fall into either category: only 21 contained former cadres and only 27 had former cadre kin (one household has both); barely 9 per cent of all entrepreneur households had past political ties. Moreover, these households actually had *lower* incomes than the entrepreneurs with no past or present political ties. Past political ties do not account for the high incomes of the entrepreneur households.

The Relative Value of Cadre Position, Entrepreneurship and Kinship Ties

These income differences are not entirely a result of the advantages of rural political office, kinship ties or entrepreneurship. Some households may have other characteristics that help them earn larger incomes. It is therefore necessary to examine the *net contribution* of political status and entrepreneurship, controlling for the impact of household education, experience, the number of employed household members and the wealth of the locality. The households of cadres and their kin may have higher average education or more extensive work experience. They may have more members in the household who are gainfully employed. And there may simply be more cadres or entrepreneurs in regions that have higher income levels.³² All these factors will be likely to inflate the incomes of the politically connected and leave an exaggerated impression of the role of political office in income generation.

32. Parish, Zhe and Li, “Nonfarm work and the marketization of the Chinese countryside”; Tyrene White, “Political reform and rural government,” in Davis and Vogel, *Chinese Society on the Eve of Tiananmen*, pp. 37–60.

Table 2: Estimated Net Contribution of Selected Household Characteristics to Total Household Income

| <i>Household characteristic</i> | <i>Net impact on total household income</i> |
|---|---|
| Average age of working members of the household (per year of age) | 9.9% per year, minus .11% for each year of average age: Age 30: 6.3% Age 40: 5.1% Age 50: 4.0% Age 60: 2.8% |
| Average educational level of employed household members (per year of education) | 6.2% |
| Number of employed household members | 17.6% for each working household member |
| Cadre kin | 19.8% |
| Cadre in household | 46.2% |
| Household enterprise | 48.0% |
| Both cadre kin and household enterprise | 48.7% |
| Both cadre and household enterprise | 116% |
| Average village income | 7.9% for each 1,000 <i>yuan</i> of average village income |

Note:

All reported effects are based on coefficients that were statistically significant at greater than the .01 level.

The net contribution of household type to income can be estimated in a regression analysis of total household income, the results of which are summarized in Table 2.³³ Age, education, household size and local levels of development do have a major impact on household income. However, controlling for these factors and for household entrepreneurship, office holding and kinship ties still have a large net impact. The impact of average household age, education and number of employed household members is large, as is the impact of average village income levels – a measure of local economic development (see Table 2).

Even after controlling for these factors, the net contribution of office-holding, kinship ties to cadres and entrepreneurship are large, and their relative magnitudes reflect what we have already observed.

33. The causal variables are the average age of working household members (a measure of work experience), average household age squared (to detect a diminishing impact of age at higher levels of seniority), the average educational level of working household members (a measure of human capital), the number of employed household members, and the six household types, excluding the ordinary household as the contrast category. Average village income controls for levels of development. The dependent variable is the natural log of household income, including remittances from migrants. The regression coefficients were converted by the function e^b to yield the percentage change in income due to a one-unit change in each causal variable. Technical details may be obtained by contacting the first author.

Having cadre kin adds some 20 per cent to the income of households that do not run an enterprise – an effect comparable to an additional three years of average household education or one additional working household member. Cadre kin households that have an enterprise, however, have no net advantage over entrepreneur households without political ties.³⁴ The net impact of a cadre in the household was virtually the same as having a household enterprise and was very large – around 46 per cent. This implies that a cadre-entrepreneur household had a 116 per cent advantage over ordinary households, and that a cadre household with an enterprise earned double the income of a non-cadre household with an enterprise.³⁵

Therefore at the end of the Deng era, rural office-holders and their kin enjoyed large income advantages net of other economically important household characteristics. Major net earnings advantages are apparent even after controlling for the large impact of household education, experience and number of employed household members. Cadre and entrepreneur households enjoy roughly the same net income advantages, even though their sources of income are very different. This leads to one clear conclusion: the income advantages of rural office holders and kin were large and durable, and lasted to the end of the Deng era.

Variation Along Paths of Rural Development

This conclusion, however, is based on national data, which permit generalizations about China as a whole but mask potentially large regional differences. The overall conclusions reveal where rural China as a whole stood in the mid-1990s, but regional variations might offer hints about the process of change and future trends.

For this purpose we isolate three regional sub-samples defined by source of income. The first type, the “agrarian village,” includes 26 villages in the sample where households earn the highest proportion of income from agriculture. Agrarian villages are the least developed, with incomes (2,008 *yuan* for each working household member) only 60 per cent of the sample average, largely because of the scarcity of income from household enterprise or wages. An average of 80 per cent of all income in these villages is earned from agriculture.

The remaining two types are at the high end of rural development, and represent two different paths. The second type is the “industrial village”: the 25 villages that derive the highest percentage of income from wages. An industrial village is one in which there is high demand for wage labour in large enterprises. This type is associated with

34. The equation included an interaction term for cadre kin*entrepreneur. It was statistically significant, negative and equal in size to the main effect for cadre kin, erasing any advantages of cadre kin over other entrepreneurs.

35. The equation included an interaction term for cadre*entrepreneur. It was not statistically significant, which means that the net advantage of cadre-entrepreneurs is equal to the sum of the effects for cadre and entrepreneur households.

regions where rural industrialization advanced rapidly under public ownership in the 1980s. These are high income regions: the average total earning power is 28 per cent above the national average, with 54 per cent of household income derived from wages.

The third type is the “entrepreneurial village”: 26 villages with the highest percentage of income from household enterprise. This is the richest group, with average household earning power 63 per cent higher than the national average. Households in these villages derive an average of 40 per cent of their income from household enterprise – but they derive almost as much from wages, which suggests that in regions where household and private enterprise have developed the furthest, they generate wage income opportunities for other households.

These forms of economic development are apparent in their occupational structure, which varies widely across the three types of villages. Agrarian villages have by far the highest percentage of ordinary households (78 per cent), relatively few entrepreneurs (10 per cent) and cadres (1.2 per cent), and almost no cadre-entrepreneurs (0.4 per cent). Industrial villages have by far the largest percentage of cadre households (5.2 per cent), which suggests a close association with public ownership. But they also have large numbers of entrepreneurs (20 per cent). Entrepreneurial villages, not surprisingly, have the highest proportion of entrepreneur households (28 per cent), but despite having fewer than half the number of cadres as industrial villages (2.4 per cent), they have by far the highest percentages of cadre entrepreneurs (2.4 per cent).

Figures 2, 3 and 4 show the earning power of households across village types. Agrarian villages (Figure 2) are distinctive in two ways. First, differences in earning power are relatively small, with at most small advantages for cadre and their kin. The ratio of the highest income group (cadre kin-entrepreneur) to the lowest (ordinary households) is only 1.7 to 1. Cadre households that do not run an enterprise have only marginally larger earning power than ordinary households, and they are at a substantial disadvantage compared to entrepreneur households. Cadre-entrepreneur households – extremely rare – earn no more than entrepreneurs, and cadre kin who run enterprises have negligible advantages over entrepreneurs with no political ties.

In these agrarian villages, political office had little impact on income; entrepreneurship appeared to be the key route to wealth. This is remarkably reminiscent of the conclusions drawn from one of the earliest surveys of suburban villages near Xiamen.³⁶ That study revealed that entrepreneurship counted more than political ties in the generation of household income, and that cadre households that did not enter into entrepreneurship fell behind the entrepreneurs and had no advantage over ordinary households. This is precisely what we

36. Nee, “A theory of market transition.”

Figure 2: Annual Earning Power of Employed Household Members in Agrarian Villages, by Source of Income and Type of Household, 1996 (*yuan* per employed household member)

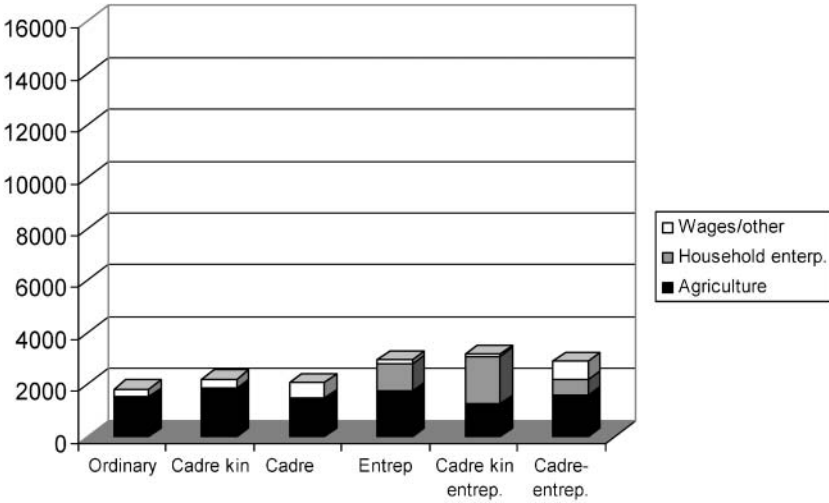
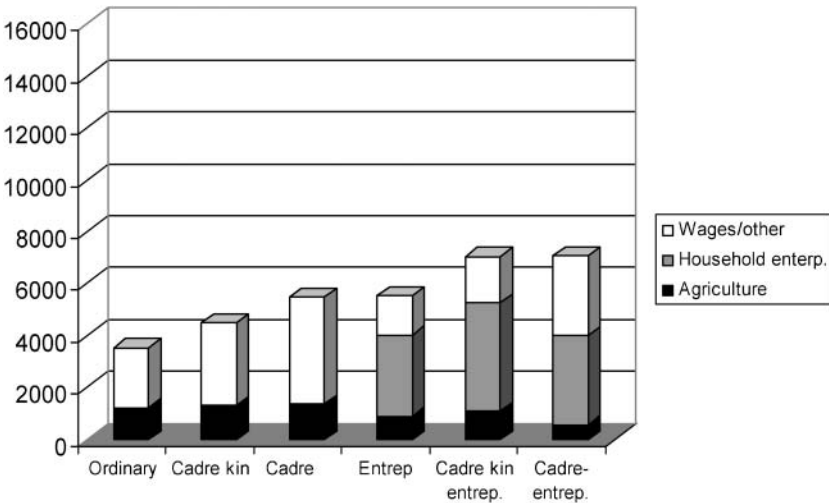
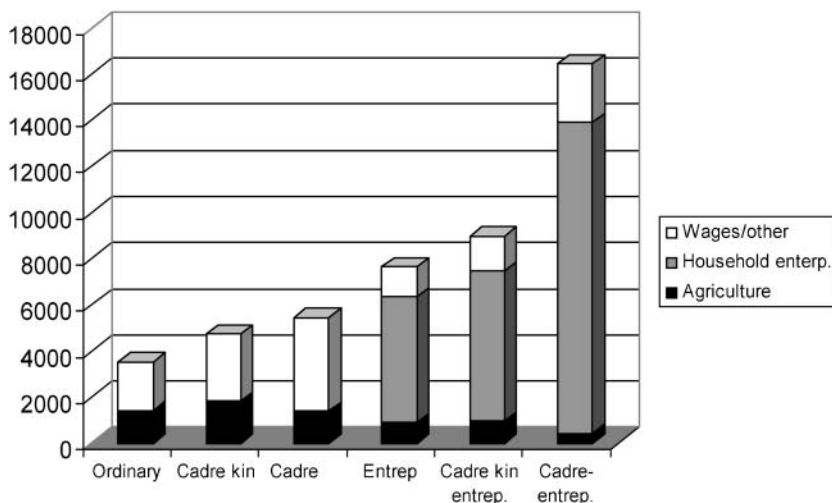


Figure 3: Annual Earning Power of Employed Household Members in Industrial Villages, by Source of Income and Type of Household, 1996 (*yuan* per employed household member)



observe in agrarian villages in 1996. At the time of the early survey, the Xiamen villages were at the forefront of market-oriented reform based on household enterprise – the same villages today would undoubtedly fall into our “entrepreneurial” category. Yet the similarities between the agrarian villages of the 1990s and Xiamen

Figure 4: Annual Earning Power of Employed Household Members in Entrepreneurial Villages, by Source of Income and Type of Household, 1996 (*yuan* per employed household member)



in the 1980s suggest that the earlier findings were not a harbinger of things to come. Instead, they were symptomatic of the early stages of market reform in an agrarian village. The first entrepreneurs quickly outstrip the incomes of cadre households and their kin.

Was this only a temporary phenomenon? The pattern in industrial villages (Figure 3) suggests that it was. In these prosperous villages cadre kin earned significantly more than ordinary households, and cadre households, in turn, earned considerably more than their kin. The large wage incomes of cadre households kept their total earnings on a par with entrepreneur households. Both cadre kin-entrepreneur and cadre-entrepreneur households earn substantially more than ordinary entrepreneurs.

The distribution of earning power in industrial villages (Figure 3), however, still differs from the national pattern (Figure 1) in important respects. First, income gaps across household types are remarkably small for villages with such high incomes. The gap between the earnings of cadre- and cadre kin-entrepreneurs and ordinary households is still only 2 to 1 – slightly larger than in agrarian villages. Wide availability of salaried jobs to ordinary households tends to elevate their earning power. Moreover, the ability of cadres to match the earnings of entrepreneurs solely with wage income deviates from the national pattern, as does the relatively muted income advantages of cadre-entrepreneurs, which were much larger nationwide (see Figure 1). It is possible, however, that the political advantages that we observe in the industrial villages are due to the predominance

of public enterprise, and the large percentage of cadre households in the industrial villages suggests that this may be the case.

However, if we expect private household entrepreneurship to reduce the political advantages observed in the industrial villages we are in for a surprise. The upward progression in income from left to right in Figure 4 matches the national pattern (Figure 1) most closely of all. In these villages, *half* the cadre households in the sample operate household enterprises (25 per cent in the other two village types). In the industrial villages, cadre income advantages were heavily based on wages and were relatively small. However in the entrepreneurial villages cadre and cadre kin advantages shifted to entrepreneurship, where they were able to reap much larger rewards than in the industrial villages, with much larger advantages (for cadres) over ordinary entrepreneurs. The pattern of political advantage in the industrial and entrepreneurial villages replicates earlier studies that have shown that cadre households adapted their economic strategies to the type of income opportunities available in different local economies.³⁷

Are these differences in average household incomes diminished if we control for other household characteristics? We replicate the regression analysis of the national sample reported in Table 2 for each of the three separate village sub-samples. Table 3 shows that the net advantages of cadre kin and cadre households correspond closely to the average earning power of the different household types in each region. In agrarian villages, cadre kin do better than cadres, who have no net income advantages. Having cadre kin is worth 23 per cent more income, compared to 36 per cent for entrepreneur households. The net income advantages of cadre-entrepreneur households are entirely from entrepreneurship, and are therefore the same as those of ordinary entrepreneurs. The net income advantage of cadre-kin entrepreneurs combines the net advantages of both cadre kin and entrepreneurs.³⁸ These findings are the same as the ones first reported by Nee.³⁹

Industrial villages are quite different. Here, cadre kin enjoy no net advantages. Cadre households have the largest net income advantages – close to 51 per cent compared to the entrepreneur advantage of some 32 per cent. Cadre-entrepreneur households combine the full advantages of both cadre and entrepreneur households, and have net advantages double those of cadre households and triple those of entrepreneurs. Net advantages for cadre households are even larger than those apparent from comparing household means. This is what we would expect to observe in villages where industry developed to very high levels under public ownership and cadre management.

37. Parish and Michelson, "Politics and markets"; Parish, Zhe and Li, "Nonfarm work and the marketization of the Chinese countryside."

38. Interaction terms for cadre kin-entrepreneur and cadre-entrepreneur were not statistically significant.

39. Nee, "A theory of market transition."

Table 3: Estimated Net Contribution of Selected Household Characteristics to Total Income, by Village Sub-Type, 1996

| <i>Household characteristic</i> | <i>Agrarian villages</i> | <i>Industrial villages</i> | <i>Entrepreneurial villages</i> |
|---|---|------------------------------------|--|
| Average age of working members of the household (per year of age) | 5.3% per year, minus .06% for each year of average age: Age 30: 3.5% Age 40: 2.9% Age 50: 2.3% Age 60: 1.7% | -1.5% for each year of average age | 12.1% per year, minus .15% for each year of age: Age 30: 7.6% Age 40: 6.1% Age 50: 4.6% Age 60: 3.1% |
| Average years of education of employed household members (per year) | 4.5% | 5.8% | 4.2% |
| Number of employed household members | 22.6% for each working household member | 26.7% | 17.1% |
| Cadre kin | 22.9% | No net impact | No net impact |
| Cadre | No net impact | 50.8% | 56.5% |
| Entrepreneur | 36.2% | 31.7% | 58.0% |
| Cadre kin-entrepreneur | 67.3% | 31.7% | 58.0% |
| Cadre-entrepreneur | 36.2% | 98.6% | 147% |
| Average village income (per 1,000 <i>yuan</i>) | 15.5% | 7.8% | 4.1% |

Note:

All reported effects are based on coefficients that are statistically significant at greater than the .05 level; otherwise we report "no net impact."

The entrepreneurial villages are similar to the national pattern observed in Table 2, with one exception: there are no net advantages for cadre kin. The net advantages of cadre, entrepreneur and cadre-entrepreneur households are larger than in the national sample, but their relative magnitudes are unchanged. The net advantages of cadre and entrepreneur households are virtually the same (56.5 versus 58 per cent), and those of cadre-entrepreneur households (147 per cent) are almost triple that of either.

If we compare the impact of household political characteristics across the columns of Table 3, we can describe the differences across regions. Cadre kin have net advantages only in agrarian villages, suggesting that such kinship ties decline in importance as the rural economy provides opportunities to larger percentages of the population. The reverse is true, however, for cadre households, which have no net advantage in the agrarian villages, large advantages in the industrial villages, and even larger net advantages in the

entrepreneurial villages. The pattern is even more pronounced for cadre-entrepreneurs. In agrarian villages, cadre-entrepreneur households had no net advantages over ordinary entrepreneurs; in industrial villages, they earned triple the incomes of ordinary entrepreneurs, a relative advantage that they maintained in the entrepreneurial villages.

In sum, the income advantages of political office were large to the end of the Deng era, even if the cadre household did not go into business. The advantages of cadre kin were considerably smaller than those of cadre households and were smaller in regions where entrepreneurship and wage labour was most widespread. However, there is no indication that the income advantages of cadre households diminished relative to entrepreneurs with either rural industrialization or the expansion of private entrepreneurship. Instead, rural economic development enlarged the net returns to households of political office-holders, which do equally well – relative to entrepreneurs and others – in local economies dominated by public industry and private household enterprise.⁴⁰

Conclusion

Up to the end of the Deng era, market reform did not undermine the income advantages due to political office-holding in rural China. In fact, the growth of a market economy during this period actually *enhanced* the relative earning power derived from office and kinship ties to office-holders. Cadre advantages were virtually non-existent in the least developed agrarian villages where market reform had yet to stimulate growth. These villages still exhibited the equal income distributions typical of subsistence agriculture at the end of the Mao era.⁴¹ The absence of cadre advantage and the large advantages of the first entrepreneurs in these backward villages were also observed in coastal regions during their initial stage of market reform.

With the benefit of hindsight it can be seen that this initial impact was not a harbinger of things to come. Instead, it is a reminder that cadre income advantages were always modest in the agrarian Mao era, and that in such a setting the initial advantage of the first cohort of entrepreneurs was very large. Two decades after Mao, the only regions with income distributions reminiscent of suburban Xiamen in 1985 were the agrarian villages. Nationwide, the net income advantages of cadre households were equal to those enjoyed by

40. This conclusion is further confirmed by an analysis of the entire sample, which showed that net cadre advantages did not decline with any form of rural development, but that net entrepreneur advantages declined steadily with rising levels of wage income (Walder, "Markets and income inequality").

41. Bingyuan Hsiung and Louis Putterman, "Pre- and post-reform income distribution in a Chinese commune: the case of Dahe township in Hebei province," *Journal of Comparative Economics*, Vol. 13 (1989), pp. 406–445; Louis Putterman, "Entering the post-collective era in north China: Dahe township," *Modern China*, Vol. 15 (1989), pp. 275–320.

entrepreneur households, and cadre households that also run an enterprise reap the advantages of both groups. Cadre households evidently derived income advantages from economic growth, and the advantages grew along with the development of the local economy.

We also see that the income advantages of cadre households were not so closely tied to their administrative power in publicly-owned and operated enterprise as many of us have assumed. While it is true that cadres did better relative to entrepreneurs in industrial villages, they are much more likely to run a household enterprise and reap larger returns as cadre-entrepreneurs in the entrepreneurial villages. Cadre households appear able to adapt their strategies to local opportunities and prosper no matter what the structure of the local economy. The differences between the public-industrial and private-entrepreneurial development paths were largely qualitative differences in the *way* that high cadre household incomes are achieved.

While relative cadre advantages did not decline during the Deng era, it is strikingly evident that the market economy expanded opportunity far beyond circles of office-holders and their kin. The entrepreneur households were a large and prosperous group, much more numerous than cadres and their kin. Private household entrepreneurship opened a new avenue of economic opportunity for large numbers of rural households with no apparent connection – past or present – to rural office-holders. This represents a historic transformation of rural social structure, even if political advantages persist for the small cadre group.

Even higher levels of one or another form of rural development may eventually lead to a decline in advantages of cadre households still evident in the mid-1990s. However, in the post-Deng era, the question of cadre advantage becomes progressively less important in two senses. First, as the non-agricultural economy expands, cadre households make up an ever-shrinking percentage of those in the highest income brackets. Secondly, after reaping large rewards from both wages and private enterprise for a generation, cadre households accumulate wealth that can be shared with kin, invested in family business or passed on to the next generation. Even if rural public enterprise is completely privatized and future political change abolishes rural cadre posts in their current form, the movement of large portions of the first generation of post-Mao cadre families into the rural economic elite will already be an accomplished historical fact. They will join a much larger new class of prosperous rural residents who arrived at these positions without benefit of political office or kinship ties.