

From workers to capitalists in less than two generations: A study of Chinese urban top group transformation between 1988 and 2013

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Abstract

Economic and social transformation of China during the past 40 years is without precedent in human history. While the economic transformation was extensively studied, social transformation was not. In this paper, we use for the first time harmonized household surveys covering the period 1988–2013 to study the changes in the characteristics of the richest 5 percent of China's urban population. We find that it changed from being composed of high government officials, clerical staff, and workers in 1988 to professionals and small and large business owners in 2013. The educational level of the top group increased substantially. Membership in CCP has a positive (albeit small) effect on one's income but is particularly valuable to large business owners.

KEYWORDS

China, top 5 percent, inequality

1 | THE OBJECTIVES OF THE PAPER

The transformation of China from a poor and egalitarian country to an upper-middle-income country with a level of income inequality greater than in the United States has been the subject of innumerable publications. Chinese transformation is a unique event in world economic history: never have so many people over such a relatively short period of time increased their income so much. China's GDP per capita in 1978, at the time of the initiation of rural reforms, was about \$1,500; by 2015, it was more than \$12,000 (both in constant PPP dollars).¹ For comparison, UK GDP per capita was (expressed in the same units) around \$12,000 in 1953, while its GDP per capita at the beginning of the Industrial Revolution is estimated at more than \$3,000.² Thus it took the United Kingdom about

a century-and-a-half to increase its GDP per capita by half as much as China did in less than 40 years. Differently, it took the United States 240 years from approximately year 1,700 (when its GDP per capita was estimated to have been \$1,200–\$1,300) to 1941 to reach \$12,000 and thus to do what China accomplished in forty years.³

Such transformations, in terms of average income and distribution of that income, are only superficially captured by synthetic indicators like GDP per capita or the Gini coefficient or the share of the top 1%. The experienced social changes were much deeper (*changement en profondeur*) and affected all social classes. Clearly, the England of 1953 was, socially speaking an altogether different country than the England of the Napoleonic wars. So is today's China compared to the China of 1978. For social researchers, the advantage of the Chinese experience is that the change has taken place so fast, in the span of less than two generations, so that it can be more easily apprehended, and that the data to assess it empirically exist today, while they were lacking during the similar episodes in Western economic history.

The objective of this paper is to describe the change in the composition and characteristics of the top of the Chinese income distribution between the years of early reforms and the attainment by China of the status of the largest economy in the world (in PPP terms). We do this by focusing on the richest 5 percent of the urban population (by their per capita income) and by adopting a descriptive approach. This is made inevitable by the type of data we have, household surveys that give a snapshot of the distribution in a given year but do not provide longitudinal data: as well by the fact that such descriptive exercises are lacking. In fact, there is, despite voluminous literature on China's "transition" that we review below, a dearth of knowledge about how the top of income distribution has changed: in what sectors by ownerships are the rich employed, how educated are they, are the owners of companies or workers, in what region do they live, how many are Communist party members? These are the questions we address.

A common view is that the Chinese society in the late 1970s–early 1980s was poor but very egalitarian: income differences between different segments of the population (workers vs. cooperative farmers; town-dwellers vs. villagers; Eastern provinces versus the Central and Western areas) were relatively small. A number of studies document low levels of income or wealth inequality across any of these criteria (Ding & He, 2018; Kanbur & Zhang, 2018; Wu & Perloff, 2005; Zhuang & Shi, 2016).

When we focus on the pre-reform period, we might distinguish, within the picture of overwhelming equality of income and condition, only a very narrow sliver of top government and party officials whose incomes and standard of living was much higher than that of the rest of the population.⁴ But the Maoist elite was very small to make a serious dent in any picture of overall equality which, by definition, takes into account the sum of all income differences between all members of a community (the Chinese nation in this case).

Moreover, the period of Dengist reforms when the transformation of the country began, was preceded by probably the most egalitarian movement in Communist, and possibly in world, history. The Cultural Revolution that is conventionally dated from 1966 to 1974 not only aimed to reduce the privileges of the top Party cadres ("bombard the headquarters [of the Party]" according to Mao Zedong), to proceed to an overwhelming replacement of the elite, to "exile" many intellectuals to the countryside and force them to do manual labor, but implemented an extreme version of "the affirmative action" that openly and hugely favored, in terms of access to education and better jobs, children of poor farmers and workers. Thus, the usually egalitarian character of socialism was additionally exacerbated by this most radical experiment in social leveling.

It is against this background of egalitarianism, and of an upper echelon that was probably composed of a small number of top party and government officials, who themselves were subject to fast rotation as their fortunes during the Cultural Revolutions and afterward quickly altered, that we ought to evaluate the transformation that has occurred in China. Section 2 reviews the literature relevant to our paper.

The household survey data that we use cover the period from 1988 to 2013. We have four waves of household surveys (Chinese Household Income Project, CHIP) conducted in 1988, 1995, 2002, and 2013. No Chinese survey data are ideal and fully comparable. Among such imperfect data, CHIP, however, has been frequently used in studies of inequality and may be considered the best household-level survey available. We have standardized

the four surveys we use so to make them almost fully comparable (see Section 3) and explain our standardization in a very detailed online appendix.

As mentioned, the objective is to study the change in the composition and characteristics of the Chinese urban top 5 percent, defined in terms of their per capita disposable (after-tax) income. We include only individuals aged 20 years or more. We decided to focus primarily on the top 5 percent rather than on the top 1 percent because the latter is too narrow a group. The top 1 percent is also unlikely to include the very richest members (say, the top 0.1 percent), whether they are top party officials or capitalist entrepreneurs. This is not only because the participation rate of the richest households may be low but also because their numbers are relatively small to be captured by random surveys (that is, short of surveys trying to oversample the rich).⁵ At times, when relevant, we study the top decile and the top 1 percent as well. Our description and the analysis of the top 5 percent are presented in Section 4.

An important feature of Chinese developments is a significant, and perhaps increasing, split between the more advanced and richer Eastern (Pacific Rim) provinces and those in the Center and the West. The survey data allow us to include the regional component in the study. The regional component is especially important in a study of the rich because one may expect that the composition of the top 5 percent had evolved differently in different parts of the country: richer and more advanced parts might have developed in a more capitalist-entrepreneurial direction than the less advanced and poorer regions. We explore this aspect in Section 4 as well.

The Chinese household survey data are unique in that they also include a personal political variable, namely membership in the Chinese Communist Party (CCP).⁶ Since CCP was the ruling and de facto the only political party in China throughout the period of our study, and its members might be thought to have enjoyed, both in the past and more recently, special economic advantages, we study empirically the role of party membership in Section 5. Section 6 presents our conclusions.

2 | RELATED LITERATURE

This paper is related to several strands of literature. Our first contribution is to chart the changes in the social structure during the “great transformation of China” in the past several decades. China's ongoing social transformation since the late twentieth century is no less consequential for the long-term course of world history than events commonly considered as historical watersheds, such as the Renaissance that began in the fourteenth century Italy, the Protestant Reformation in sixteenth century Germany, or the Industrial Revolution in eighteenth century Britain (Xie, 2011). Consequentially, a large literature has emerged in the last two decades, which explores the ongoing social transformation and implications of the rapid economic development in China (see Bian, 1996, 2002; Brandt et al., 2008; Lin & Wu, 2010).

More specifically, our research contributes to the understanding of the relationship between the changing social structure and income inequality. This allows us to place the recent social transformation in China in the historical perspective and to draw comparisons, principally with Western countries. While this comparison is not the object of the current paper, the data and the analysis provided here make such comparisons an obvious topic of future work. The Chinese transformation seems to have exhibited similar tensions between economic and social demands typically attributed to western industrialization (e.g., Polanyi, 1944). But it was compressed in time due to the extraordinarily high rate of growth of the economy. According to social tables for England and Wales reworked by Allen (2017), it took British capitalists 180 years, from Gregory King's 1688 social table to Baxter's social table in 1867, to increase their share in the population from 3.4 percent to 7.8 percent. For urban China, however, we find that small and large capitalists (including the self-employed) increased from less than 1 percent of the population in 1988 to 12.3 percent 25 years later.

Social class analysis has figured prominently in the existing literature (mainly focusing on western countries) studying how social relations of production—typically asset ownership and authority—influence income inequality

(see Dahrendorf, 1959; Wodtke, 2016; Wright, 1979, etc.). There are compelling reasons why this framework is especially pertinent to analyze the great transformation in China. Officially, “class” labels were introduced during the Mao’s era with the clear intention to predetermine the social prospects of individuals. The labels were intended to reflect pre-1949 class relations. There were “five bad elements,” landlords, rich peasants, counter-revolutionaries, bad elements (in general) and rightists, and “five red categories”: workers, peasants, cadres, descendants of revolutionary martyrs, and revolutionary intellectuals (see Goodman, 2014). In a form of extreme affirmative action, the “five bad elements” and their progeny were to be discriminated against, and the “five good elements” and their progeny to be discriminated in favor. While such labels are no longer used, and do not openly lead to advantages and disadvantages, social classes and social structure matter in China, both officially (this is why a statistical count of classes is maintained) and in terms of what society modern China is.

China experienced at the same time a rapid transformation of the class structure and a substantial increase in income inequality (see Lin & Wu, 2010; Lu, 2002, 2004, 2010; Piketty, Yang, & Zucman, 2019; Xie & Zhang, 2019). Hence it is legitimate to ask whether these developments are related and to what extent the social class is a determinant of income inequality (e.g., see Wodtke, 2016 for a related analysis for the United States), and *vice versa*, to what extent has rising inequality been an important determinant of the class identification (Goodman, 2014).

The global shift of the industrial production to China in recent decades has entailed a thorough modification of the social relations of production in the country, both along dimensions of ownership and control over productive assets.⁷ There has been, on the one hand, a dramatic change within the working class, with the massive rural–urban migrations and rapid proletarianization amid dissolutions and privatizations of the state-owned enterprises. On the other hand, as documented in the paper, altogether new classes emerged, most notably that of private, often big, owners (see Lin, 2007, 2008; Lin & Wu, 2010; Liu, 2007). Similarly, the importance of professionals, working either in state or private sectors, increased.

Therefore, the social class analysis—by considering some unique features of the contemporary Chinese society—provides a valuable lens to study the distributional implications of China’s movement toward capitalism. The approach is thus complementary to the more frequently studied functional distribution of income between capital and labor, which has traditionally been a concern of economists.^{8,9} In addition, the class-based framework implicitly stresses the antagonistic interests of different classes, an aspect frequently missing from the mainstream economic analysis.¹⁰

The major innovation in our paper is that we for the first time build a framework to use harmonized household surveys to study the evolution of the richest population segment (the urban top 5 percent) and social transformation in the recent decades. It is a much broader approach, especially if compared to the existing literature, where studies of Chinese elites have exclusively focused on CCP members (Kross, 2018; Li, 2018). In our research, the Chinese “top group” is defined by their income level, and includes both CCP and non-CCP members. Moreover, our framework enables to look at, and tease out, some especially important inter-relationships between the private sector and CCP membership. We show that since 1988 China has been transformed from having among the urban top 5 percent most people linked to government and state-owned enterprises to professionals and private sector entrepreneurs.

The rapid market transition in China has been to a large extent a process steered by the Communist-linked elites which were never entirely homogeneous. It is a unique feature of the Chinese transformation that it has been carried out under the authoritative aegis of the Chinese Communist Party (CCP), which has retained its political monopoly against the background of market reforms and economic decentralization. While CCP has acted as a “designer and supervisor” of the reform, the process has led to the profound transformation of the party, and the elites in general (Naughton, 2007). The CCP needed to adapt itself to the rapidly evolving social and economic environment in order to preserve its political power or to ensure its survival. This adaptability is clearly evidenced by the striking change in the composition of the 5 percent which we document in Section 4, as well by the change in the social structure of CCP itself and its own richest group, that is, the CCP members who are also part of the top 5 percent (Section 5). The CCP opened itself to individuals with higher education and professional expertise

and quickly lost its peasant and lower-skilled urban layout. The late 1980s and especially the 1990s saw a darting rise of technocrats in the CCP (Li, 2016, 2018). We shall, indeed, see that professionals currently represent the largest social group among the top 5 percent.

However, it is not clear that this process mechanically signified a drift toward strictly meritocratic recruitment. As mentioned, peculiarities of China's transition to capitalism gave rise to a large body of research in political sociology which has studied the character of the elite recruitment in post-Maoist China.¹¹ Walder (1995) and Walder et al. (2000) have put forward a "dual career path" hypothesis, according to which elite recruitment in China occurs along two distinct paths—one professional and the other political—for which education and political loyalty are assessed differently and which, in consequence, results in a sharp differentiation of the political and professional elite (Walder, 1995, p. 311).¹² Therefore, there is, according to these authors, no homogenization of the elite into one higher-educated professional group.¹³ Two distinct roads continue to exist.¹⁴ Moreover, ongoing social transformation in the 2000s, as discussed below, has prompted other authors to see the two elites merging into one single politico-entrepreneurial elite (despite the difference in the mode of recruitment). Our empirical analysis does not allow us to pass a judgment on this issue, since in our case we stay within the narrow confines of the top 5 percent, defined by their income level and without having information on how they have arrived there, but provides the basis needed for a more useful discussion of the nature of the Chinese elite.

Most remarkably, as said, further marketization of China opened the doors for the new group, the entrepreneurs and capitalists. Ideologically, the process of CCP social transformation was reflected in Jiang Zemin's, then the President of the CCP and President of China, concept of "The Three Represents" which opened the Party membership more widely to technocrats and even to capitalists. In a well-known proclamation in 2001, Jiang Zemin encouraged the admission of private businesspeople into the party ranks, grounding it on the theory of "Three represents," according to which "the CCP should now represent society's advanced material, ideological and cultural forces" (Dickson, 2003, 2008; Goodman, 2014). It should be noted, however, that, in principle, the Chinese Communist Party was never entirely closed to the membership of the "well-meaning" national bourgeoisie: even China's coat of arms with five stars, where the largest one stands for the Communist party, includes national bourgeoisie together with three other classes of workers, peasants, and urban bourgeoisie, as country's component parts. This is a far more flexible attitude than that of the Soviet Union and other Communist countries.

Ever since, the entrepreneurs have been the focal point of numerous conjectures on the future of the political system in China, frequently perceived—due to their growing economic strength—as potential agents of the political change toward the democratization of China (as in the modernization theories such as Barrington Moore's summarized by the famous quip of "no bourgeoisie, no democracy"; see overviews in Dickson, 2003; Goodman, 2014).

However, these predictions turned out wrong, or at least premature. In a sort of the Chinese variant of the *concordia ordinum*, the CCP has been rather successful in holding the tight grip on the economy and there are no indications of a lurking conflict between the party and entrepreneurs.¹⁶ It seems that the "modernization" narratives greatly downgrade how thoroughly the Party and the private business are interwoven in China today, and, more generally, overemphasize the disconnection of the economy from the political realm.

The party nomenclatura and private business cultivate strong links both at the institutional and personal level. Numbers of party functionaries have changed a career to become successful entrepreneurs (the so-called *xiaohai* entrepreneurs) and many thriving entrepreneurs have been co-opted into the party ranks (Dickson, 2003, p. 5; Chen & Dickson, 2010). This close interdependence magnifies the importance of political connections in China's economy today (Calomiris et al., 2010; Chen & Kung, 2018; Fan et al., 2007; Guo et al., 2014; Kung & Ma, 2018; Li et al., 2008; Nee & Opper, 2010, etc.). In all likelihood, this symbiosis contributes to stronger cohesion at the top. One could even go as far as to suggest that it is a critical feature of Chinese political capitalism (Milanovic, 2019): a symbiosis where the political leaders maintain their supremacy and autonomy, while allowing the private sector to prosper as long as it does not question the political order.¹⁷

3 | THE DATA

Our analysis relies on the nationally representative household income surveys—China Household Income Project (CHIP)—which were drawn from a much larger sample of Urban Household Survey (UHS) conducted annually by the National Bureau of Statistics (NBS).¹⁸

CHIP is the most well-known survey used in tracking and studying inequality in China. Many influential and seminal studies of China's inequality during the economic transition are solely based on CHIP (see Bian & Zhang, 2002; Griffen & Zhao, 1993; Gustafsson et al., 2008; Li et al., 2013; Riskin et al., 2001).¹⁹ Besides CHIP is also adopted by Luxembourg Income Study (LIS) as the benchmark survey for measuring inequality in China and for international comparisons. CHIP is also widely used to study other economic, social, and political issues.²⁰ Indeed, there are several alternatives one could use to study economic inequality in China, such as All-China Urban/Rural Household Survey (UHS/RHS), China Family Panel Survey (CFPS), and China Household Finance Survey (CHFS). However, since UHS/RHS are not publicly accessible, and CFPS and CHFS only started after 2010, CHIP is the only option that a study like ours study could be based on.

To conduct our empirical analysis, we use urban samples of four CHIP waves in 1988, 1995, 2002, and 2013.²¹ The richness of the survey information in CHIP allows us to analyze various characteristics of the urban top 5 percent, and the evolution of these characteristics over time and across regions. The characteristics of interest analyzed here are social class, source of income, education, profession, type of ownership (state, private, foreign, etc.) where the 5 percent work, and CCP membership.

Despite detailed survey information provided by CHIP, the major challenge is that the surveys are not conducted in the exactly consistent manner across the four waves. For instance, the survey questions vary across different waves. Even when the questions remain the same, the answer options might vary.²² Thus, harmonization of the survey data is required before conducting any analysis, to ensure that the comparison of statistics across waves is meaningful.

We would like to stress that despite our effort in cleaning and harmonizing the data, due to the initial differences in the surveys, the data are still not perfectly consistent across waves. However, we believe that the harmonized data set is “strong enough” to support our analysis to the extent that the results will not be affected by the minor inconsistencies that still exist across waves. We provide the data, detailed explanation (as well as complete STATA do files) for each variable and each survey in the online appendix.

Below we shall explain how the harmonization process was conducted for several key variables.

3.1 | Income

The income concept we use is adult disposable income, which is defined as the sum of wage income, business income, property income, and net transfer income (pensions *plus* other social benefits *plus* private transfers *minus* direct taxes and *minus* social security contributions). Wages include money wages plus wages in kind composed of fringe benefits, the imputed value of subsidized goods received, and imputed value of state housing (above the nominal rent). Wages in kind were much more important in 1988 than in later surveys. For wage income and business income, CHIP provides individual-level information in all four waves of the survey. For property income and transfer income, individual-level information is provided in CHIP 1995 and 2002, while CHIP 1988 and 2013 provide only household-level information. Thus, in the case of CHIP 1988 and 2013, we equal-split property and transfer income among all adults in the household.

3.2 | Profession

The remarkable social transformation of China in recent decades is, in our opinion, best manifested in the changing professional composition of the population. CHIP allows us to chart the professional structure of the top 5 percent as China moved from the still predominantly state-owned economy of the 1980s, with only timid attempts at reforms, toward a more comprehensive marketization of the country observed today. Motivated by our research agenda and at the same time dictated by the specificity of the data, we settle on the following six professional categories: (1) owner (manager) of private business, (2) owner of individual business, (3) professional, (4) higher-level official in the government or state-owned enterprise (SOE), (5) clerical or office staff, and (6) worker. In what follows, we explain in more detail the professional categories of interest and describe how we have harmonized them across waves.

3.3 | Owner (manager) of private business versus Owner of individual business

According to NBS classification on company registration type, private enterprises refer to profit-making economic units founded and owned by natural persons or controlled by natural persons using hired labor. Included in this category are private limited liability corporations, private shareholding corporations, private partnership enterprises, and private-funded enterprises. Individually (owned) business, as the name suggests, is a company owned by only one individual. It is the simplest form of company registration in China, and is mostly used for the self-employed, who in some cases, and at irregular intervals might employ additional workers. As Huang (2008), citing the official definition, writes, "individual businesses in industry and commerce (*geti gongshang hu*)...are essentially self-employment proprietorships, although some also [have] outside employees. Under Chinese law, those businesses that employ less than seven workers are considered self-employment businesses." Owners of private business firms, known as *siying qiye* "differ from the self-employment businesses in that they are much larger and typically employ seven or more workers per firm" (Huang, 2008, p. 107).²³ Basically, the term "private" should be understood to imply that there are hired workers whereas the term "individual" implies either self-employment or small or irregular use of hired labor. In the rest of the paper, we shall use the terms "private business owner," and the "self-employed" (or "individual business") for the two groups.

The professional classification changed considerably in the 2013 wave²⁴ and we had to harmonize data in order to ensure consistency with the previous survey waves (the classification of professions in the questionnaire has remained practically unchanged between the 1988 and 2002 waves). In the 2013 wave, there is no direct or clear distinction between "Owner (Manager) of Private Business" and "Owner of Individual Business." Thus, we used auxiliary survey information to classify individual adults into the six benchmark categories. More precisely, we identify respondent's profession as private business owners in 2013 under two scenarios: (i) if (s)he is the employer or self-employed and working in private enterprises; (ii) if his/her occupation is the principal of an enterprise and (s)he is working in a private enterprise (see appendix for a detailed technical exposition). The identification method for the owner of an individual business is similar to for *Owner (manager) of a private business*, except that these are people who work in individual enterprises instead of private enterprises.

3.4 | Professionals (professionals and technical personnel)

The Chinese official Classification and Codes of Occupation (i.e., GB/T 6565-2009) provide a clear definition for this category: professionals refer to personnel who specialize in various scientific, professional or technical work. A person engaged in such type of professional work is generally required to have a systematic professional

education and hold professional or technical rank in his/her working place after standardized evaluation. It also includes those who work in a professional or technical post but not holding a professional or technical rank yet.²⁵

3.5 | Higher-level officials in the government or SOE

As the name suggests, this category includes all the principals in (i) the CCP, government, or state-owned institutions; (ii) other parties or social organizations; (iii) public enterprises.

3.6 | Clericals and office staff and workers

According to the Classification and Codes of Occupation (i.e., GB/T 6565-2009), this category refers to personnel engaged in administrative assistance and clerical work in government, party, public institutions, and enterprises, and staff engaged in security, fire control, posts, and telecommunications.²⁶ It basically includes (what used to be called) “white-collar workers.”

Workers include all unskilled and skilled employees in all industrial sectors (including sales clerks or service workers).

3.7 | Provinces and Regions

To classify the economic development of different provinces in China, the National Bureau of Statistics divides China into three economic regions. The coastal eastern region is comprised of 11 provinces and municipalities: Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, and Hainan. The central zone is comprised of eight provinces including Heilongjiang, Jilin, Shanxi, Anhui, Jiangxi, Henan, Hubei, and Hunan. The third economic region is Western China which includes 12 provinces: Inner Mongolia, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang (see the Map 1).²⁷ We adopt the same regional classification to conduct the regional analysis.

The geographic coverage of CHIP has also been changing through the four waves. However, the CHIP sample was selected by systematic sampling method in three layers of east, center, and west (see Li et al., 2008) to make sure the survey is regionally representative.²⁸ To be more precise, compared to CHIP 1988, CHIP 1995 adjusted the sample in the Central and Western regions by replacing Shanxi (in Central) and Yunnan (in Western) with, respectively, Hunan and Heilongjiang (in Central) and Guizhou (in the Western region). The coverage of Central and Western regions remained practically unchanged after 1995. The coverage of the Eastern region that includes, among others, Beijing, Guangdong, and Shanghai, has been increasing gradually since CHIP 1995. Overall, the urban population of the included provinces accounts for approximately 50 percent of total China's urban population, with the coverage the highest in the Central region and the lowest in the West. Table 1 shows the details of the evolving regional coverage.

4 | CHANGING CHARACTERISTICS OF THE RICHEST 5 PERCENT

4.1 | The share of total income

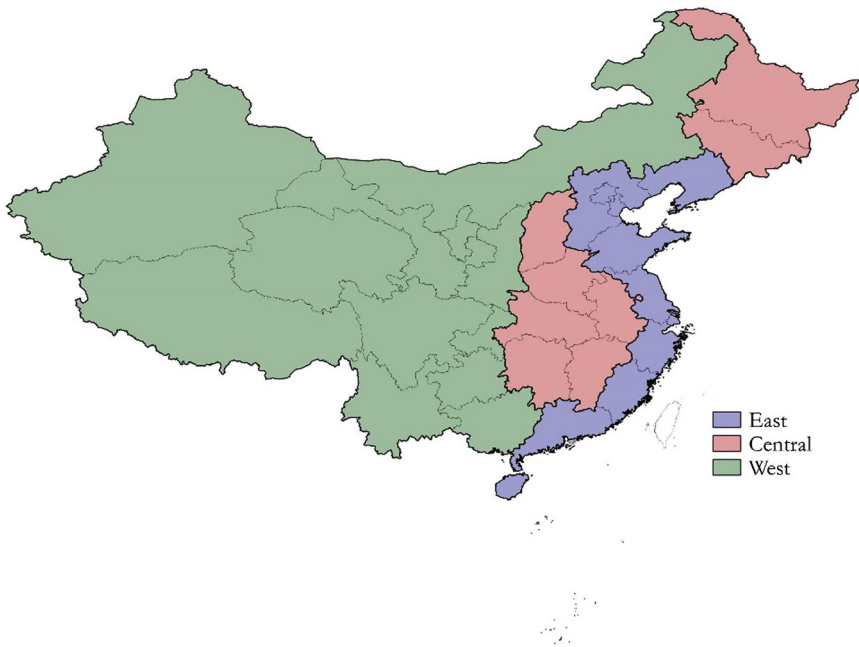
Similar to other studies of income inequality in China (Ding & He, 2018; Piketty, Yang, & Zucman, 2019; Wu & Perloff, 2005; Xie & Zhou, 2014, Zhuang & Shi, 2016), the standardized CHIP surveys show a steady increase in

TABLE 1 The geographic coverage of CHIP (Provinces)

Year of the survey	1988	1995	2002	2013
<i>East</i>				
	Beijing	Beijing	Beijing	Beijing
	Liaoning	Liaoning	Liaoning	Liaoning
	Jiangsu	Jiangsu	Jiangsu	Jiangsu
	Guangdong	Guangdong	Guangdong	Guangdong
			Shandong	Shandong
				Shanghai
Total population included (in m)	44.8	64.5	80	170.4
Percent of total urban population	51	53	50	48
<i>Central</i>				
	Anhui	Anhui	Anhui	Anhui
	Henan	Henan	Henan	Henan
	Hubei	Hubei	Hubei	Hubei
		Hunan	Hunan	Hunan
		Heilongjiang	Heilongjiang	Heilongjiang
	Shanxi			Shanxi
Total population included (in m)	32	63.1	79.8	174.9
Percent of total urban population	48	72	72	83
<i>West</i>				
	Guansu	Guansu	Guansu	Guansu
		Guizhou	Guizhou	Guizhou
	Yunnan			
Total population included (in m)	6.8	8.4	11.1	23.6
Percent of total urban population	14	14	14	14
<i>All urban China</i>				
Total population included (in m)	83.6	136	170.9	368.9
Percent of total urban population	41	50	49	50
Sample Size (persons)	31,827	21,698	20,628	19,887

inequality. As explained in Section 3, inequality is measured by the distribution of after-tax after-transfer (i.e., disposable) income among adults aged at least 20 years. Individual income (wage, social transfers, etc.) is assigned to individuals who have received them, while capital income and transfer income when information is not provided individually is divided equally among the household members (aged 20+).

Income share of the three top groups we consider here (Figure 1) has steadily gone up. The top 1 percent share of total urban income went up from 4.3% in 1988 to 7% in 2013; the share of the top 5% increased from 13% to



MAP 1 Map of China with three regions

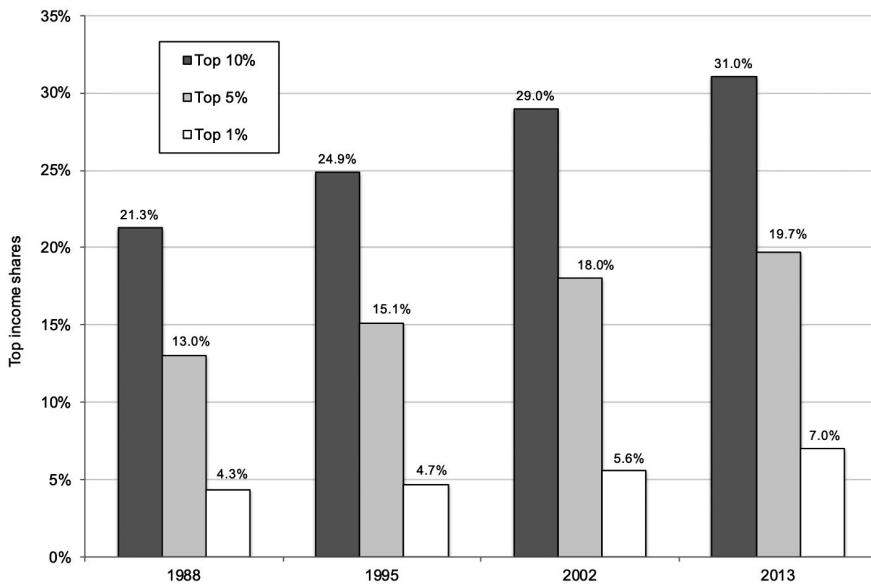


FIGURE 1 Income shares of the top 1 percent, top 5 percent, and top decile. The graph shows the share of total urban income received by the top 10%, top 5%, and top 1% urban population

almost 20%, and the share of the top decile increased from about 21% to 31%. Measured by the Gini coefficient (calculated across all adults) inequality went up from 0.27 to 0.45.

We thus establish the first, rather unsurprising result, of steadily higher inequality in urban China. For our work, however, the important fact is that the share of total income on which we shall focus (the share of the top 5 percent) went up from 13% to 20%. Another way of giving the order of magnitude of the flows with which we

are concerned here is to note that since urban China's total income is estimated at about 1/7th of world total income,²⁹ the people we consider here are receiving about 3% of world income—not an inconsiderable amount.

4.2 | Composition of top 5 percent income

We have seen that the urban top 5 percent of China's adults increased their share in total income from 13% in 1988 to almost 20% in 2013. What types of income do they mostly receive and has that composition changed? The data are shown in Table 2. Wages remain by far the most important source accounting for between 77% and 84% of their total income in 1988–2002. (In 2013, however, the classification does not allow us to separate wages and business income: the two together make 86% of total top 5 percent income.) Business and property income (together) are between 5% and 6%, and the share of transfers declines from 17% in 1988 to 11% in 2002.³⁰

Is the top 5 percent income composition different from the overall income composition in urban China? The answer is, not very much. In 1988–2002 surveys, wages accounted for around 80% of total urban Chinese incomes, which is the same as their importance in the top 5 percenters' income. The difference (in relative terms) is more substantial when it comes to business and property incomes: in urban China, these two sources accounted for only 2% in 1988 and 1995 (vs. 5%–6% among the top 5 percent) and in 2002 their shares among both the population and the top 5 percent were the same. Transfer income is, unsurprisingly, more important for the total population than for the top. Overall, we can conclude that the top 5 percent depend more on business and property income than does urban China as a whole, but the shares of these two types of income remain (or at least, they did remain until 2002) relatively small. Another way to see this is to note that for each yuan received from business or property, the members of the top 5 percent receive more than 15 yuans from labor. With the rising share of owners and entrepreneurs among the top 5 percent in 2013 (see below), the relationship has probably moved in favor of business and property incomes.

The members of the top 5 percent used to come predominantly from the state sector. In 1988, almost four-fifths of their income was derived from the state and collective sectors (see Figure 2). The role of the private sector was minimal (6% of income). While the situation remained the same in 1995, by 2002, we already see significant changes with the private sector income accounting for 17% of the top 5 percent income, and public and collective sectors shrinking equivalently. In 2013, the private sector overtakes the state sector as the dominant sector from which the rich draw their income. Over the entire period, the growth of private sector income is nothing short of extraordinary: in 1988, the private sector income received by the top 5 percenters amounted to only 0.8% of all urban incomes in China; in 2013, it was 10-fold greater: more than 8% of all urban incomes.

TABLE 2 Composition of income, by Income source, for all urban population, and the top 5 percent (in %)

	All population				Top 5 percent			
	1988	1995	2002	2013	1988	1995	2002	2013
Wages (incl. wages in kind)	83	80	78	76	77	81	84	86
Business income	1	1	4		5	1	4	
Transfers	15	18	18	24	17	14	11	14
Property income	1	1	1		1	4	1	
<i>Total</i>	100	100	100	100	100	100	100	100

Note: In 2013, wages and business income (as well as transfers and property income) are shown together.

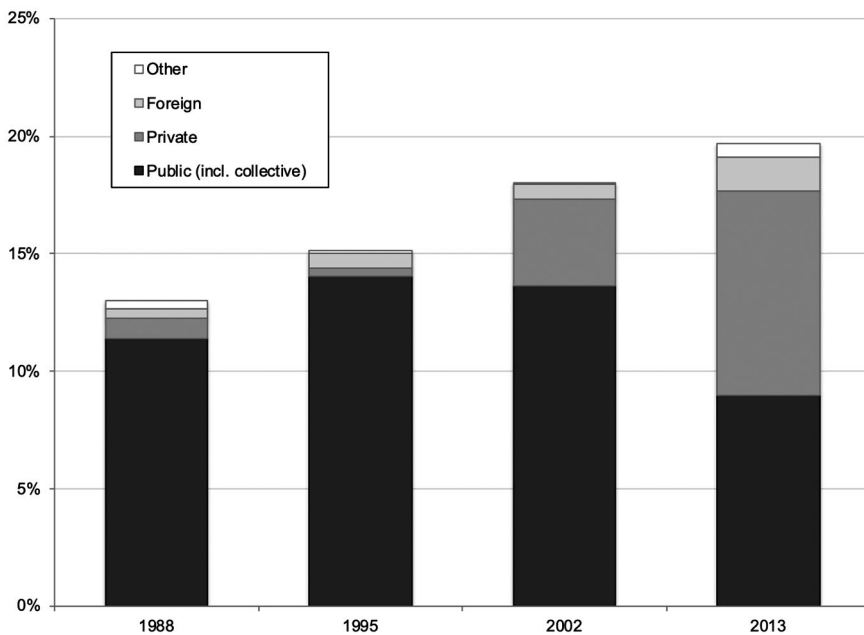


FIGURE 2 Income sources, by sector of ownership, of the top 5 percent (in % of total All-China urban income). The graph shows the composition of the top 5% income. The height of the bar gives the share of the top 5 percent income in total urban income

4.3 | Social composition of the top 5 percent group

Our data on the social composition of the top 5 percent members are available for all four years. They allow us to see what is only hinted at when we look at their income sources, namely a major shift toward owners and the self-employed (individual business owners) among the top 5 percent (Figures 3 and 4). Owners of large private enterprises and the self-employed accounted for only 3% of top members in 1988. Their share doubled to about 6% by 2002, a significant but not a dramatic expansion (corroborated, as we have seen, by the data on the increased importance of business and propriety income). It then “exploded” in the next decade, increasing more than three-fold to reach almost 20% in 2013.

The top 5 percent group which before the important urban reforms in the early 1990s was overwhelmingly composed of workers, clerical staff, and government officials—the three classes accounting for 76% of the people in the top 5% in 1988—has by 2013 moved to a situation where professionals and business owners are in the majority (Figure 3). In fact, the 2013 survey shows that 53% of the members of the top 5 percent are professionals and owners of private and individual businesses. Professionals have become the largest social group among the top 5 percent.

A different way of looking at the social change among the top 5 percent consists of looking at the share of income received by different classes (Figure 4). In 1988, 76% of the total top 5 percent income was received by workers, clerical employees, and government officials. (This was exactly equal to the percentage of people from these three classes who were part of the top 5 percent). At that time, owners of large and individual businesses received only 5% of total income, slightly in excess of their then share of 3% in the total number of adults. Finally, professionals received 18%.

This has dramatically changed since. By 2013, workers, employees, and government officials earned only 41% of the top 5 percent total income (while, as we have seen, representing 46% in terms of the members), while business owners (of the two kinds) received 27% of total income, and professionals 32%. Therefore, the domination

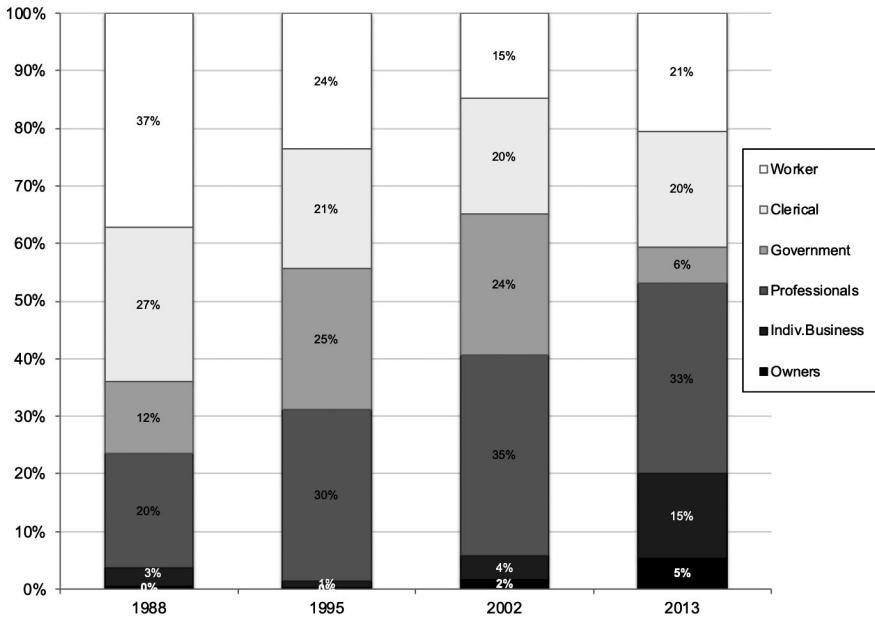


FIGURE 3 Social composition of the top 5 percent (percentage of adults)

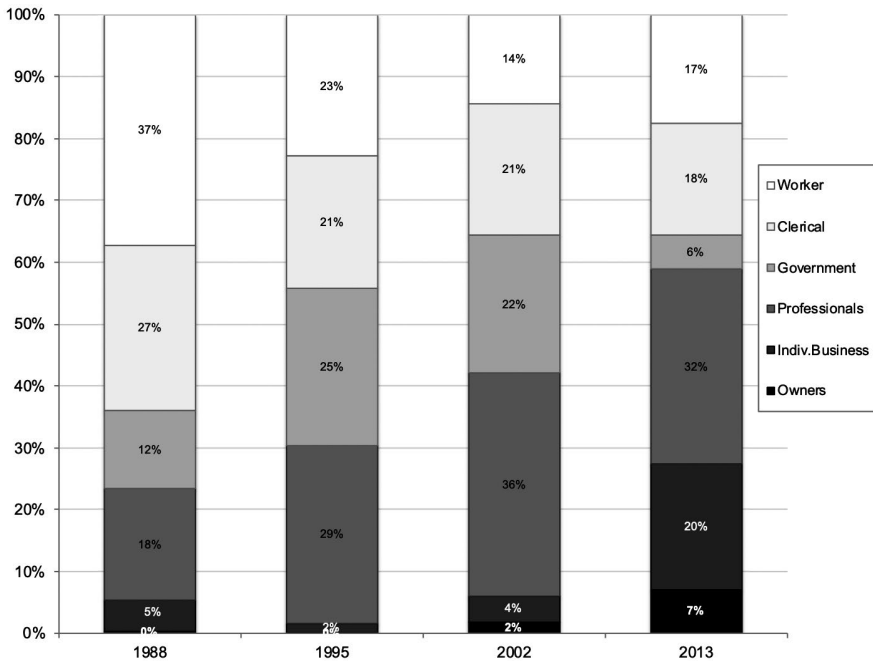


FIGURE 4 Share of the top 5 percenters' disposable income by social group

of professionals and business owners among the new top 5 percent is even stronger when measured in terms of income than in terms of the number of people. This is due to the fact that owners tend to have higher incomes than other members of the top 5 percent. In 2013, private sector and individual business owners, “the homo novi” of the Chinese transition, got 27% of all top 5 percent income while representing 20% of members. Thus, their

income was, on average, 35% higher than the average income of the top group. Business owners' importance among the top 1 percent is even greater than among the top 5 percent: they account for a third of the people in the top 1 percent and receive (in 2013) a whopping 46% of all top 1 percent incomes.

There are, of course, obvious issues of classification to which we alluded in Section 3. Lumping professionals with business owners may not be fully appropriate since many professionals may be employed by state-owned companies or by the government. But there too, as Figure 5 illustrates, there has been a movement in favor of the private sector. In 1988, almost all professionals were employed by the state and collective sectors; in 2013, only two-thirds were. The other third worked in the private and foreign-owned companies. Thus, the percentage of people among the top 5 percent whose incomes are private sector related increased from 5% in 1988 (when all professionals were employed by the public sector) to almost 40% in 2013.³¹ The increase in social classes whose livelihood is *not* related to the state among the richest group is perhaps the most dramatic reflection of the deep changes underwent by urban China in the past thirty years.

Finally, a third way to look at the change in the top 5 percent composition is to compare the social structure of the top with that of all Chinese urban population. Here, in effect, we ask the question: to what extent is the rising share of business owners among the top 5 percenters a product of the generally rising importance of business owners in China? We note from Table 3 that while the increase in the share of individual (small) business owners among the population matches almost perfectly its rise among the top 5 percent members (both rose by a little over 11 percentage points), the number of private (big) business owners among the top 5 percent rose more sharply than its numbers among the Chinese urban population (almost 5 percentage points vs. 1.2 percentage points). The likelihood of private business owners to be among the top 5 percent has remained about four to five times greater than that of the other categories combined. In conclusion, the rising importance of private and individual business owners among the top 5 percent seems to be a reflection of an overall increase in the numbers of entrepreneurs and capitalists, who also tend to be much richer than the average person, rather than the product of an exceptional enrichment of business owners as such.

The conclusion, however, is different when it comes to workers. Their share among the entire urban population has hardly changed between 1988 and 2013 (minus 1.3 percentage points), but their importance among the

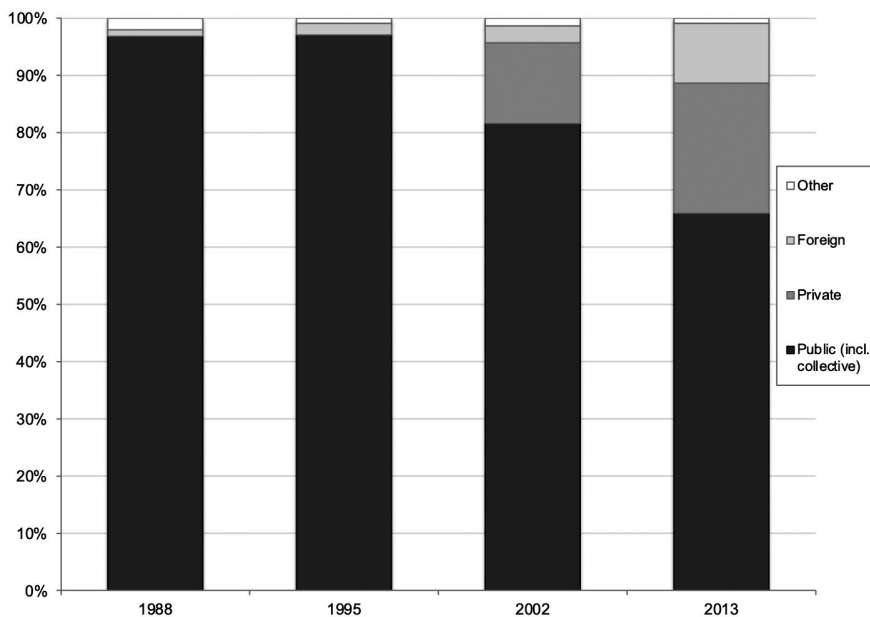


FIGURE 5 Distribution of the members of the top 5 percent who are professionals by sector of ownership. The graph shows the sector of ownership where professionals work

TABLE 3 Social composition of adults in urban China, the top 5 percent, and top 1 percent of adults in 1988 and 2013

	Urban China			Top 5%			Top 1%		
	1988	2013	Change	1988	2013	Change	1988	2013	Change
Workers	51.9	50.3	-1.6	37.3	20.6	-16.7	35.5	11.8	-13.7
Employees (clerical staff)	24.0	15.3	-8.7	26.8	20.1	-6.7	29.4	17.6	-11.8
Government officials	7.3	3.9	-3.4	12.3	6.3	-6.0	13.2	3.3	-9.9
Professionals	16.1	18.2	+2.1	20.0	33.0	+13.0	12.7	33.3	+20.6
Individual business owners	0.7	11.9	+11.2	3.3	14.7	+11.4	8.6	25.5	+15.9
Private business owners	0.1	1.3	+1.2	0.4	5.3	+4.9	0.5	8.5	+8.0
<i>Total</i>	100	100	0	100	100	0	100	100	0

TABLE 4 Educational attainment in all urban China and the top 5 percent in 1988 and 2013 (adults; in %)

Education	Urban China			Top 5 percent		
	1988	2013	Change	1988	2013	Change
University	6	15	+9	12	44	+32
Polytechnic	6	15	+9	7	22	+15
Vocational	10	10	0	9	8	-1
Upper middle	22	18	-4	20	14	-6
Lower middle	38	29	-9	33	10	-23
Primary	14	11	-3	15	1	-14
No primary	6	3	-3	0	0	0
<i>Total</i>	100	100	0	100	100	0

top 5 percent collapsed by almost 17 percentage points. Thus, while in 1988, a worker's chances to be among the five percent richest urban adults was about 0.7 (compared to the average of all social groups = 1), it decreased to only 0.4.

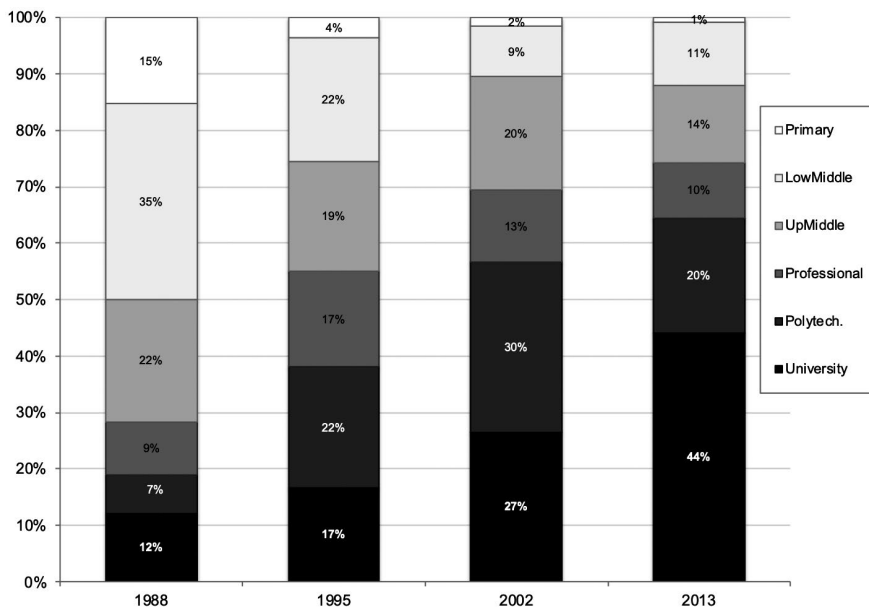
4.4 | Educational level of the top 5 percent

The top 5 percent are much more educated in 2013 than in 1988: those with university education, rather than those with lower middle school, are the most important group (Table 4). Also, a much greater share of the total top 5 percent income is received by the highly educated (Table 5). At the beginning of the period, only 12% of the top 5 percenters income was received by university-educated members and 15% by those with only primary education. By the end of the period, the proportions were 44% and 1%.

Figure 6 illustrates the steady nature of the shift toward a more educated composition of the top 5 percent. The increase in the share of the university- and polytechnic-educated members was constant throughout the years studied here.

TABLE 5 Distribution of total and top 5 percent income among different educational categories in 1988 and 2013 (in %)

Education	Urban China			Top 5 percent		
	1988	2013	Change	1988	2013	Change
University	7	24	+17	12	44	+32
Polytechnic	7	19	+12	7	20	+13
Vocational	11	11	0	9	10	+1
Upper Middle	21	17	-4	22	14	-8
Lower Middle	36	22	-14	35	11	-24
Primary	13	6	-7	15	1	-14
No Primary	5	1	-4	2	0	-2
Total	100	100	0	100	100	0

**FIGURE 6** Distribution of the top 5 percent disposable income among people of different educational attainments (in %). The graph shows the shares of the total top 5 percent income received by different educational categories (e.g., how much of the total top 5 percent income was received by university-educated adults, etc.)

Is the increase in the share of the top 5 percent income received by the highly educated simply the result of an overall increase in the education level in urban China, or greater recruitment (or higher average income level) of the university-educated who are members of the top group? As Tables 4 and 5 show, both effects matters, but the latter seems to have been stronger. In urban China overall, the share of income earned by the university-educated increased by 17 percentage points while among the top 5 percent it grew by almost twice as much (32 percentage points). For the middle educational categories, the changes in urban China overall and in the top 5 percent were about the same—and of course, for the bottom education categories, their drop in the top 5 percent income share was sharper than in urban China overall. In conclusion, the richest urbanites became more educated with their education level increasing faster than in urban China overall, and a much larger part of the top 5 percent income was earned by those with university education.³²

TABLE 6 Income level and inequality in Eastern, Central, and Western China (urban areas)

	Average nominal income level (current yuan per adult)		Average change (% p.a.)		Average real income level (2010 yuan per adult)			Gini		Top 5 percent share		
	1988	2013	1988	2013	1988	2013	Average change (% p.a.)	1988	2013	1988	2013	Change (% points)
Eastern region	2,114	38,221	12.3		5,541	34,384	7.6	28	45	13.6	20.4	+6.8
Central region	1716	27,226	11.7		4,496	24,493	7.0	26	45	11.7	18.3	+6.6
Western region	1,880	27,121	11.3		4,928	24,399	6.6	27	41	11.7	16.4	+4.7
Ratio: East/West	1.1	1.4			1.1	1.4						

Note: Real income expressed in 2010 yuans (CPI from World Development Indicators 2018).

4.5 | Regional distribution of the Chinese richest (top 5 percent) urbanites

It is well-known that China is regionally diverse and unequal: Eastern provinces are much richer and grew at a higher rate than the rest of China (see Table 6). Although these differences are even greater when we combine rural and urban areas (because of the greater importance of generally poorer rural areas in Western and Central China) they are still large even when we consider urban areas alone. In 2013, the Eastern urban region had an income level some 40 percent higher than the Center and the West and that gap was greater than it was at the beginning of the period under study here. The Eastern region is also more unequal than the other two, whether measured by the Gini or by the top 5 percent share. Not surprisingly, between 1988 and 2013 inequality increased in all three regions quite dramatically, with the top 5 percent income share in the East going from 13.6% of the total (Eastern) urban income to more than a fifth. The change was only slightly less dramatic in the other two regions.

Consequently, the East was and remains the richest and the most unequal region. It is, therefore, not surprising that the lion's share of All-China urban top 5 percent income is earned in the Eastern provinces (see Figure 7). The share of the East has even slightly increased (from 69% to 73%), while the shares of the other two regions have correspondingly declined by 1 and 2 percentage points between 1988 and 2013. What the figures highlight, however, is the remarkable stability in the regional distribution of the top 5 percenters: while the composition of the top 5 percenters' income, their social structure, and education have all changed in a remarkable fashion, the geographical concentration has not been much affected. One may conclude that whether the urban Chinese top group is composed of social classes who are more or less linked with the state, or are more entrepreneurial or less, their geographical location does not seem to vary.

The next question we ask is whether the social composition of the top 5 percent—namely, the gradual movement toward the private sector which is the most salient feature of the change in this period—has played differently in the three regions. Table 7 shows the evolution of the class structure among the top 5 percent in the three

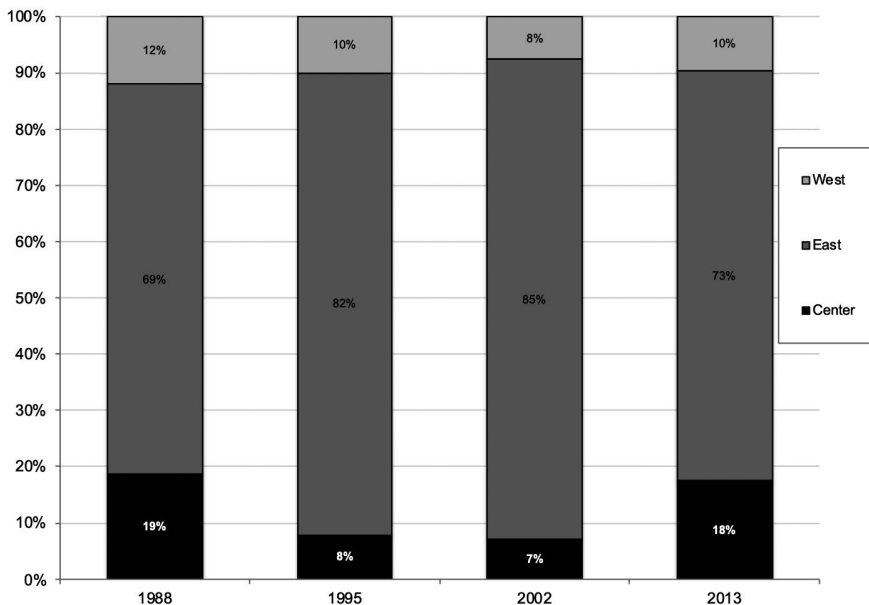


FIGURE 7 The shares of the three regions in total urban China's top 5 percent income. The graph shows the distribution between different regions of the disposable income received by the top 5 percent (e.g., how much of the total top 5 percent income was earned by individual adults living in the East, etc.)

TABLE 7 Shares of the private business-linked, professionals, and government-linked groups in the top 5 percent (regional-distribution; in percent)

	Center			East			West		
	1988	2013	Change (% p.a.)	1988	2013	Change	1988	2013	Change
Owners and the self-employed	6	36	+30	3	16	+13	4	18	+14
Professionals	22	28	+6	20	35	+15	20	27	+7
Government and workers	72	36	-36	77	48	-29	76	55	-21
<i>Total</i>	100	100	0	100	100	0	100	100	0

Note: The universe is composed of the top 5 percent adults in All-China, and the table shows their regional and social distribution. (In other words, this is *not* the top 5 percent specific to each individual region). Hundred for each region sums all members of the *All-China* top 5 percent that are located in a specific region.

regions, where, in order to highlight the role of the private sector we have merged the six principal social groups into three: (a) private business owners and the self-employed (individual owners), (b) professionals, and (c) workers, government officials, and clerical staff. In all regions, the first two groups have expanded and the third has shrunk. For example, in the Central region, where the share of the private sector group among the top 5 percent is the greatest, its share has gone up from 6% of the population in 1988 to 36% in 2013. The professionals' share in the Central provinces has increased from 22% to 28%. Consequently, the importance of government-connected group (c) has literally halved: from 72% to 36%. The evolution in the other two regions has been very similar. Just to highlight the magnitude of the change, note that the private business people's share in the top 5 percent ranged in the three regions between 3% and 6% in 1988, while quarter-century years later it was between 16% and 36%.

The results strikingly illustrate the overturning social (or class) composition of China's richest urban group across all the regions. They show that the All-China results are not driven by one or another region only: they are present in all geographical areas. Obviously, some regions (e.g., the West) may have a greater share of government-linked individuals in the top 5 percent, but the key finding, and the key similarity, is the one relating to the direction of change: in all regions, the past 25 years have brought the rising dominance of private sector-linked groups and professionals among the top 5 percent. Although the direction of the change was uniform, the extent of change differed between the regions. The most dramatic changes occurred in the Center where private sector-related groups increased the most. The East experienced the most significant rise of professionals, while the West experienced a slightly more modest rise in the importance of the private sector classes and professionals.

5 | THE ROLE OF THE CCP MEMBERSHIP

The Chinese Communist Party is the founding and ruling political party of the People's Republic of China. Except a few tumultuous years in the early phase of the Cultural Revolution, the ruling CCP has held the ultimate political power in the People's Republic of China since 1949. Since its founding in 1921, CCP has been growing tremendously. Between 1921 when it was founded and 1949 when it came to power, CCP membership increased from 57 people to about 4 and half millions (Koss, 2018). Today, there are more than 90 million CCP members³³ (accounting for about 6.5% of the total population), which makes CCP the second-largest party in the world after Bharatiya Janata Party in India.³⁴ Since 2012, about 2 million new members join the party every year.³⁵

5.1 | The representation of CCP members in top income groups and their relative income

No published data are distinguishing between CCP members in rural and urban areas. However, in the surveys we use the share of CCP members in the total urban population is shown to go up from 21% in 1988 to 24% in 1995 and further to 26% in 2002 before dropping to just below 20% in 2013. These numbers are essentially replicated at the level of the regions.³⁶

The share of CCP members among both the top 5 percent and the top 1 percent increased continuously between 1988 and 2002, and then dropped rather precipitously between 2002 and 2013, only replicating in a more dramatic fashion the evolution of the overall CCP membership in urban areas. By 2013, the share was lower than at the beginning of the period. Both the levels and the evolution of the share are very similar for the top 5 percent and the top 1 percent. As Figure 8 illustrates, at its peak, CCP membership in both top groups exceeded one-half, and among the top 1 percent it reached almost 60 percent. But by 2013, CCP members were only one-third of the top 5 percenters and slightly under one-quarter of the top 1 percent members.

There were, however, changes in the relative income of the CCP members who are also in the top 1 percent. In all years prior to 2013, the relative income of CCP members was about the same as the relative income of other members of the top 5 percent whether among the group that comprises percentiles 91–95, percentiles 96–99, or the top 1 percent. But in 2013, we note a significant decrease of CCP members' relative income compared to the rest of the top 1 percent. CCP members have, on average, an income 15 percent below the mean of the group (see Figure 9). At the same time, the average income in CCP members who are self-employed or large owners *and* also members of the top 1 percent shoots up significantly compared to both other top 1 percent CCP members or others in the top 1 percent (Figure 10). One can, therefore, conclude that CCP members who are very rich are now fewer in numbers (their participation in the top groups is less); they are also, at the very top, less rich relative to their non-Party peers except if they combine CCP membership with private sector ownership.

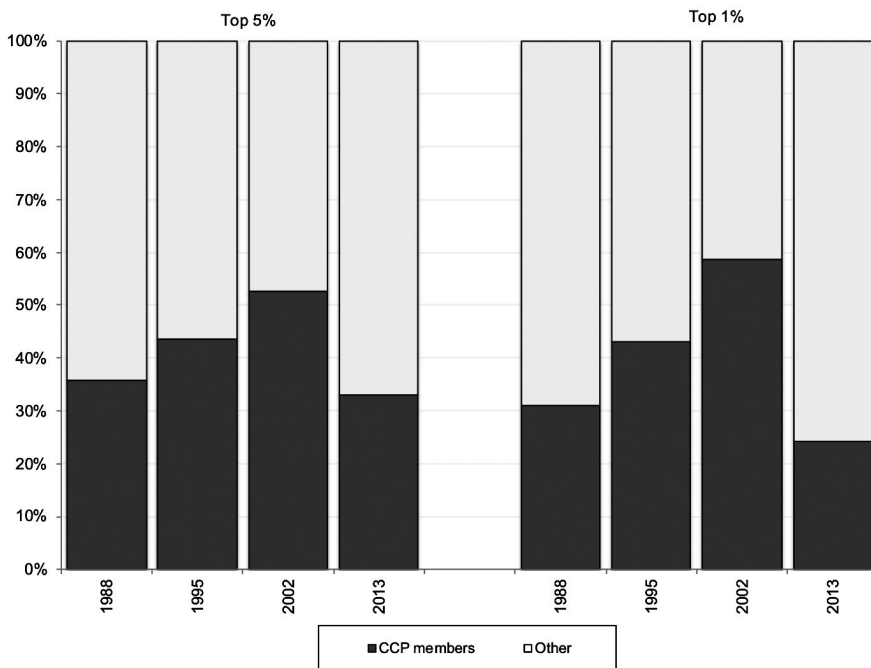


FIGURE 8 The share of CCP members among the top 5 percent and top 1 percent. The graph shows the percentage of people in the two top income groups who are CCP members

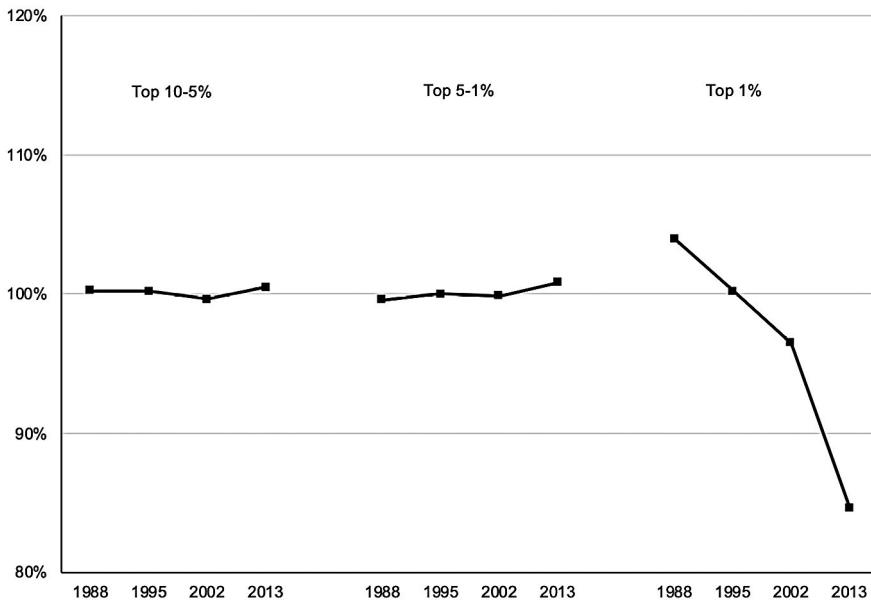


FIGURE 9 Income of CCP members belonging to top groups compared to the average income of all members of each top group. The graph shows the average income of CCP members who are part of percentiles 91 to 95 (left), percentiles 96 to 99 (middle), and the top percentile (right) relative to the mean income of that group. Value of 100 indicates that the average income of CCP members is the same as the average income of the group (and hence also to the average income of non-Party members)

5.2 | CCP membership and social class

Table 8 shows the social structure of CCP membership overall and of CCP members who are part of the top 5 percent in the beginning and at the end of the period (for the entire period see Figures 11 and 12). We note that in 1988 the two social structures (overall and the top 5 percent) were practically the same: the percentage of workers or government officials in total CCP membership was very closely reflected in the share of such social groups among the top 5 percent. Thus, for example, the most numerous social group in CCP membership in 1988, employees (clerical workers), accounted for 39% of all CCP members and 34% of CCP members in the top 5 percent; similarly, government officials were 23% of all CCP members and 26% of CCP members who were in the top 5 percent. The implication of this finding is that belonging to one versus another large social group—once one is a CCP member—was not a factor that mattered for one's income level. In other words, CCP members who were government officials were just slightly more likely ($26/23 = 1.1$) to be members of the top 5 percent than CCP employees ($34/39 = 0.9$) or even CCP workers ($12/16 = 0.75$). This means that the within-social-group income distributions of CCP members were quite similar.

But in 2013, not only has the social composition of the overall membership changed, bringing in private sector businessmen and increasing significantly the participation of workers and professionals, but belonging to different social groups affected one's likelihood of being part of the top 5 percent. Not unexpectedly, the share of private businessmen who are CCP members in the top 5 percent is in 2013 greater than their share in the overall CCP membership (that is, private businessmen members of CCP have a more top-heavy distribution than say, workers who are members of CCP). The likelihood of workers CCP members being part of the top 5 percent has dwindled: while workers represent 30% of the entire CCP membership, only 15% percent of CCP members who are in the top 5 percent are workers (ratio $15/30 = 0.5$). The likelihood of professionals CCP members being part of the top 5 percent is much greater ($38/26 = 1.5$). Thus, professionals who are CCP members are now three times as likely

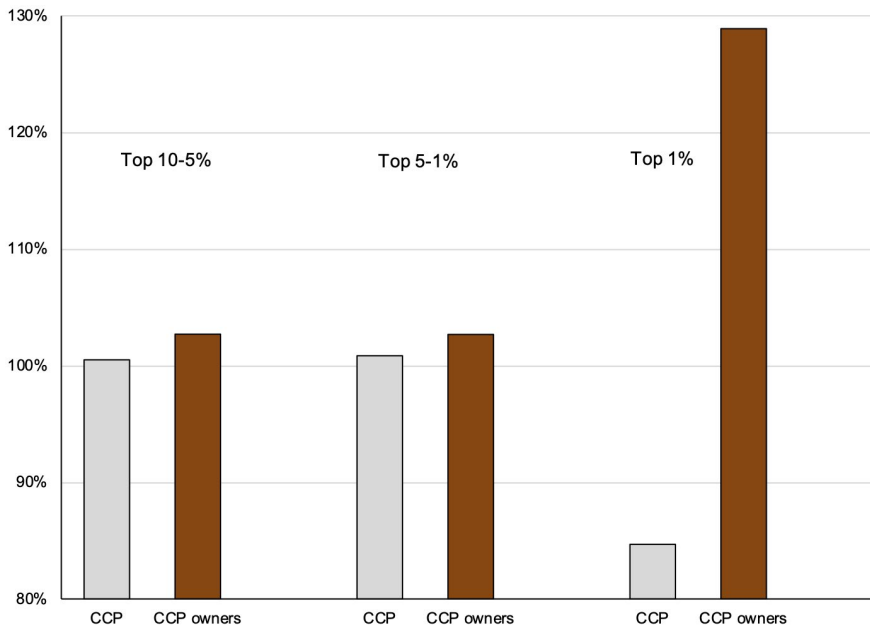


FIGURE 10 Relative income of CCP members and CCP members who are “owners” (self-employed or large owners), 2013. Note: The graph shows the average income of CCP members (CCP) and CCP members who are self-employed or large owners (CCP owners), who are part of percentiles 91 to 95 (left), percentiles 96 to 99 (middle) and the top percentile (right) relative to the mean income of that group. Value of 100 indicates that the average income of a specific group is the same as the average income of the given quantile. All values refer to the year 2013

TABLE 8 Distribution of CCP members among different social groups in 1988 and 2013 (in %)

Social class	All CCP members			CCP members in the top 5 percent		
	1988	2013	Change	1988	2013	Change
Workers	16	30	+14	12	15	+3
Employees (clerical staff)	39	32	-7	34	33	-1
Government officials	23	8	-15	26	9	-17
Professionals	23	26	+3	28	38	+10
Individual entrepreneurs	0	3	+3	0	3	+3
Larger business owners	0	1	+1	0	2	+2
<i>Total</i>	<i>100</i>	<i>100</i>	<i>0</i>	<i>100</i>	<i>100</i>	<i>0</i>

Note: The table shows the distribution by the social group of all CCP members and of CCP members who are part of the top 5 percent.

to be part of the moneyed top group than workers who are also CCP members. The last finding means that professionals who are CCP members are over-represented among the rich, and workers who are also CCP members under-represented. In other words, the within-social-group income distributions of CCP members are no longer similar.

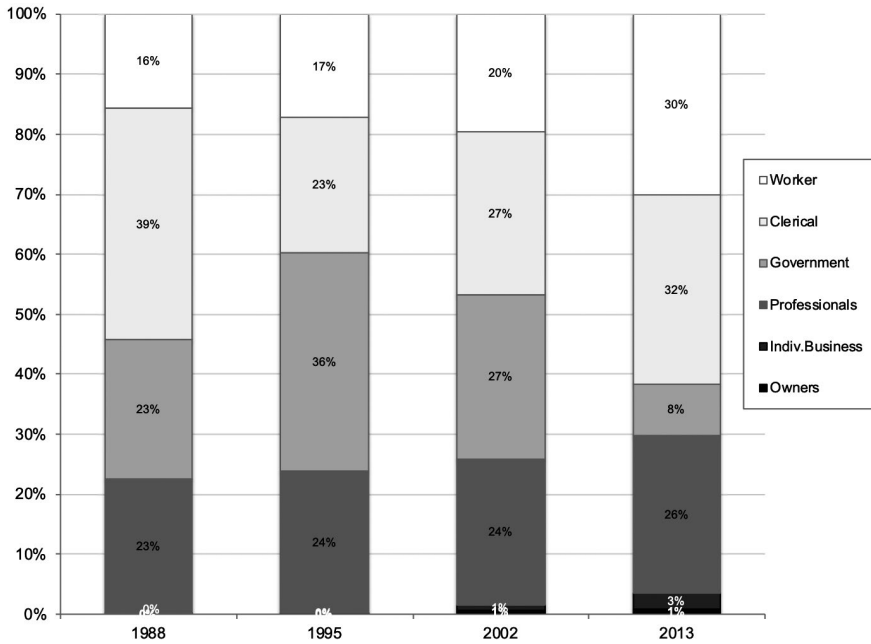


FIGURE 11 Social composition of CCP membership (percentage of people)

This has implications as to how we regard the social composition of the Chinese Communist Party. If we look at the overall membership, it is apparent that seven out of each ten members are part of the “older,” in the past strongly state-dependent, categories such as workers, clerical staff, and government officials. But if we look at the rich Party members only, the breakdown is 57% to 43% between the “old” and the “new” classes. In other words, while the Party overall still has a majority membership of the “old” social groups, its rich top is increasingly dominated by the “new” social groups.

This leads us to ask a more general question of (a) how representative is Party membership compared to all Chinese urban population, in addition to the question of (b) how closely the wealthy part of the Party (CCP members who are in the top 5 percent) corresponds to the overall Party membership. Consider (a) first. If we add the absolute values of all percentage discrepancies between the share of each social group in the total urban population and its share in CCP membership (such as, for example, for government officials who in 1988 were 7.3% of urban population but 22.6% of CCP membership which yields the discrepancy of 15.8 points), we obtain the top line in Figure 13 which shows stability since 1995. CCP membership does not perfectly match the urban population by social group, but it does a better job than in 1988. To answer the second question, we do the same addition of absolute discrepancies between different social classes’ shares in total CCP membership and their shares among the CPP members who are part of the top 5 percent. There, the bottom line in Figure 13 shows a mild increase implying an overall divergence of the Party’s rich from the overall CCP membership.

We can illustrate the processes of over- or under-representation using the examples of professionals and workers. Professionals tend to be over-represented in CCP compared to their importance in China’s urban population. This is shown in Figure 14 (panel a) by the first bar which is always positive and since 1995 is steadily increasing (implying that over-representation is getting greater). The second bar shows the increasing over-representation of professionals in the top 5 percent compared to their share in CCP. To give the idea of the values, consider the year 2013: professionals were 18% of the urban population, 26% of all urban CCP members, and 38% of CCP members who are in the top 5 percent. So the first over-representation was 8 percentage points, the second 12 percentage points.

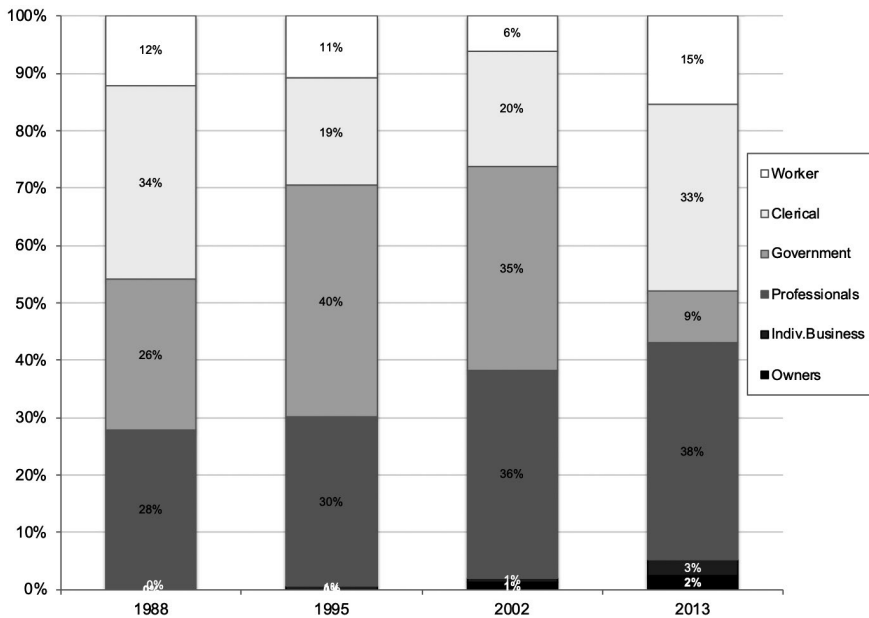


FIGURE 12 Social composition of CCP members, who are part of the top 5% (percentage of people)

But the evolution of workers was very different. As panel (b) in Figure 14 shows, while their underrepresentation in CCP compared to their numbers in the urban population decreased, with CCP thus bringing in relatively more workers, their underrepresentation among the rich was rapidly getting “worse.” Consider 2013 again: workers were 50% of all urban population, 30% of all urban CCP members, but only 15% of CCP members who were part of the top 5 percent.

If we then, at least conceptually, combine the two under/over-representations, we conclude that professionals’ share of CCP membership has not changed much but that professionals who are CCP members have become much more numerous among the top 5 percent, that is they have become richer.³⁷ On the other hand, workers’ share in urban CCP membership in 2013 reflects more closely workers’ share in the overall urban population, but workers under-representation among the top 5 percent is significantly greater than before. In conclusion, while the structure of CCP membership in the recent period approximates better the population structure than in 1988, the CCP top is moving further away from both CCP overall membership structure and that of the urban population as a whole.

5.3 | The financial returns to CCP membership

How valuable is CCP membership? Table 9 shows the results of the regressions, run for each of the four years across the whole survey population, that try to “explain” the income level of adults. We use variables that are commonly thought to be correlated with income, many of which we have already discussed above: demographics, education, social group, ownership type of the company one works for, region, and finally the membership in the Chinese Communist party.³⁸ The omitted category is a worker employed in the state sector in the Central region.

The results obtained for the control variables are fairly consistent; coefficients on almost all of them are highly significant (in most of the cases well below the 1% level), and we shall discuss them only briefly.³⁹ Women’s penalty is present throughout and is increasing over time: in 1988, women had incomes only 8% below those of men, while in 2013 the gap was 28%. Age shows the usual inverted U-pattern with very stable coefficients. Education is—not surprisingly in the light of what we already established regarding the rising share of the university educated

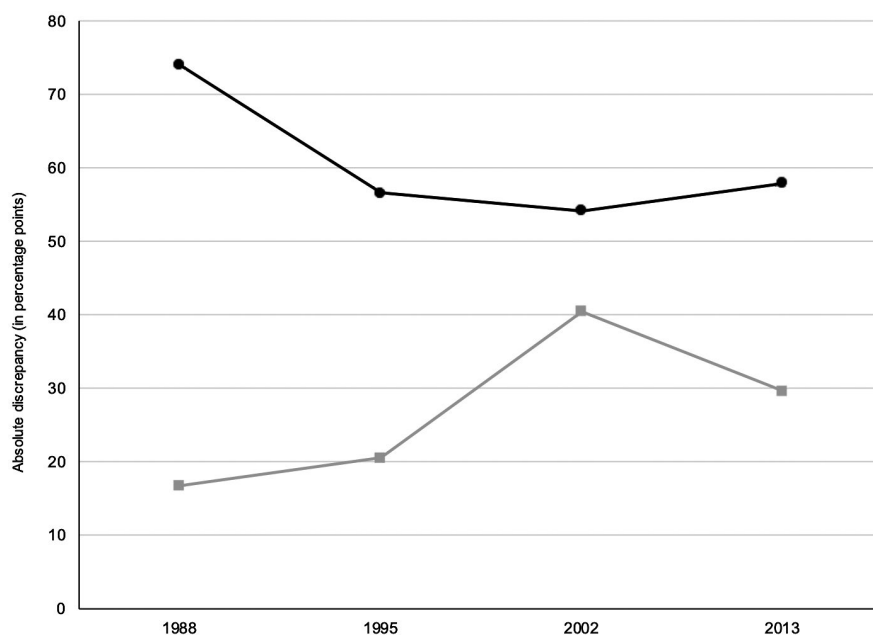


FIGURE 13 Discrepancy between group composition of the urban population, urban CCP membership, and urban CCP membership that is part of the top 5 percent. The top line gives the absolute discrepancy between urban population and CCP urban membership; the bottom line gives the absolute discrepancy between CCP urban membership and CCP urban membership that is part of the richest 5 percent. The discrepancy is measured in terms of social group percentage shares

among the top 5 percent—becoming much more valuable among the entire urban population. The returns to each additional year of schooling increase from only 2% in 1995 to 6% in 2013. (It should be recalled that the explanandum here is total income and not only wage income, for which education may be even more important). Private sector owners, of big or smaller companies, enjoy a clear income premium in 2013: for larger owners, 56% over an equivalent person working in a state-owned company, for smaller owners (including the self-employed), 21%. This has not always been so: at the beginning of the period, the premium was non-existent for large owners and was even negative in 1995. Professionals and government officials though have always enjoyed a premium compared to state-sector workers, and that premium is steadily going up with each survey. But interestingly, when it comes to the ownership of companies that one either owns or is employed by, cooperatives and the private sector have a “penalty” compared to the state sector, and only foreign-owned companies have had a consistent premium over the state sector. In the latest survey, their premium amounts to 27%. Finally, the Eastern region enjoys a premium of between 21% and 33%, and the Western region of between 5% and 9% (both compared to the Central region).

Before we move to the CCP premium, let us note that the comparison between the early results (1988) and those for the most recent year (2013) corroborates our findings of greater equality in the early period when measured by the Gini coefficient or the top shares. Here, that finding is reflected in several features: women’s penalty was lower in the past, education mattered much less (due to its very low financial returns), and incomes of various social groups were more “bunched” together with both the private sector, and also professionals, government officials, and clerical workers enjoying smaller advantage compared to state-sector workers than is the case in the more recent surveys.⁴⁰ Thus the results of the regressions are consistent not only with lower overall Gini inequality in the 1980s, but they also allow us to retrieve the features of the “structural egalitarianism” that existed in pre-reform China, namely low gender discrimination, low appreciation of education, and small between-group income differences. All of these are, indeed, the characteristics that, probably in a more extreme fashion, have

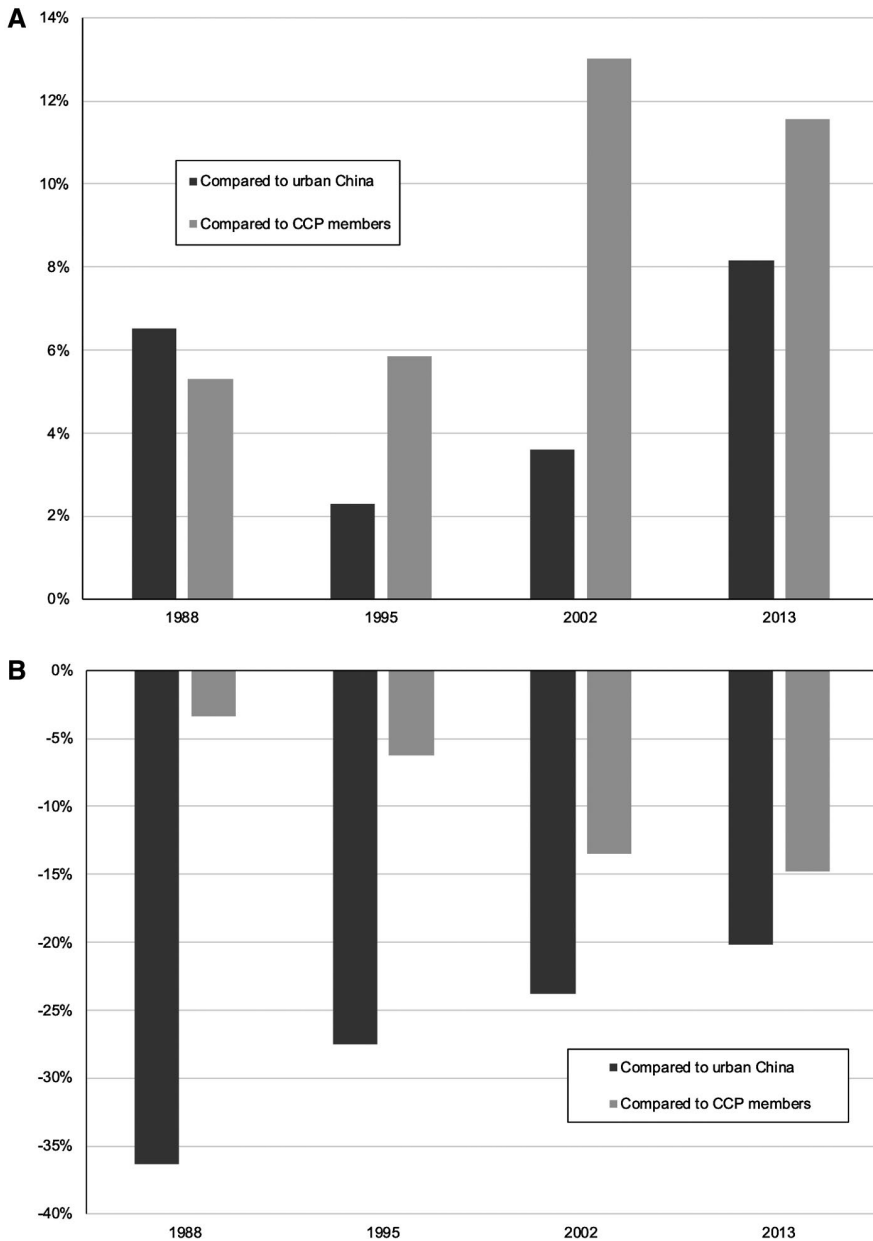


FIGURE 14 Over-representation of professionals and under-representation of workers. (A) Professionals, (B) Workers. The left bars show the share of professionals or workers urban CCP members against their share in the total urban population. Positive (negative) values imply they are over-(under)-represented in the Party. The right bars show the share of professionals or workers CCP members who are part of the top 5 percent versus their share in all urban CCP membership. Positive values imply that they are over- (under-) represented among the top 5 percent compared to their share in urban CCP membership

been argued to have been present in China during its Maoist period, and that we find, to some extent still extant in 1988, but almost wholly gone by 2013.

We now move to the value of CCP membership. It was always (with the strange exception of 1995) valuable: its premium amounted to between 5% and 12%.⁴¹ Other than the oddity of 1995, the premium is the lowest in 2013

TABLE 9 Determinants of income (dependent variable: natural log of disposable adult income; population: all-Chinese urban population)

Variable\year	1988	1995	2002	2013
<i>Demographic variables</i>				
Sex (0 = male; 1 = female)	-0.08** (0.00)	-0.14** (0.00)	-0.17** (0.00)	-0.28** (0.00)
Age	0.06** (0.00)	0.06** (0.00)	0.06** (0.00)	0.05** (0.00)
Age squared	-0.0006** (0.00)	0.0007** (0.00)	-0.0007** (0.00)	-0.0006** (0.00)
<i>Education</i>				
University	0.05** (0.00)			
Polytechnic	0.0001 (0.99)			
Upper middle school	-0.003 (0.98)			
Lower middle school	-0.008 (0.43)			
Primary school	-0.03* (0.04)			
Uncompleted primary	-0.13** (0.00)			
Years of education		0.02** (0.00)	0.04** (0.00)	0.06** (0.00)
<i>Social group</i>				
Owner of larger business	-0.15 (0.15)	-0.46** (0.01)	0.53** (0.00)	0.56** (0.00)
Entrepreneur (owner of smaller business)	0.32** (0.00)	-0.20* (0.01)	0.17** (0.00)	0.21** (0.00)
Professional	0.07** (0.00)	0.22** (0.00)	0.32** (0.00)	0.19** (0.00)
Government or SOE official	0.09** (0.00)	0.22** (0.00)	0.31** (0.00)	0.15** (0.00)
Clerical worker	0.05** (0.00)	0.11** (0.00)	0.21** (0.00)	0.10** (0.00)
<i>Ownership of place of work</i>				
Collective ownership	-0.12** (0.00)	-0.24** (0.00)	-0.33** (0.00)	-0.12** (0.00)
Private	-0.22** (0.00)	-0.16** (0.00)	-0.19** (0.00)	-0.09** (0.00)

(Continues)

TABLE 9 (Continued)

Variable\year	1988	1995	2002	2013
Foreign	0.35** (0.00)	0.32** (0.00)	0.11** (0.01)	0.27** (0.00)
Other	-0.15** (0.00)	-0.10 (0.13)	-0.37** (0.00)	-0.24** (0.00)
<i>Region</i>				
East	0.21** (0.00)	0.33** (0.00)	0.37** (0.00)	0.26** (0.00)
West	0.09** (0.00)	0.05** (0.00)	0.09** (0.00)	0.05** (0.00)
CCP membership	0.06** (0.00)	-0.13** (0.00)	0.12** (0.00)	0.05** (0.00)
Constant	6.40** (0.00)	7.35** (0.00)	7.37** (0.00)	9.01** (0.00)
R^2	0.28	0.26	0.29	0.25
(F)	(321)	(311)	(246)	(201)
N	17,445	13,930	9,655	9,562

Note: The omitted category is a worker employed in the state sector in the Central region (professional school graduate for the years where the number of years of education is not available). *p* values between parentheses.

**(*) indicates significance at 5 (1) percent level. All are weighted regressions run with survey sample weights.

but the differences between the various years are not statistically significant. The premium can be thought, in the most direct fashion, to reward the membership by allowing people who are CCP members to accede to positions of greater authority and hence to have a higher income. Although this is very likely, one has to allow for the possibility that the premium may also be due to the unobserved individual characteristics like hard work or ambition. It is, in effect, well-known that the CCP membership is designed to be “elitist” in the sense that the number of candidates always exceeds the number of those who are accepted into membership. For example, in 2016, more than 20 million Chinese have applied to join the Party, but only 1.9 million were accepted.⁴² The membership will likely appeal to those who are more ambitious, and also that those who are more perseverant are more likely to obtain it. Thus, the membership premium may, indeed, be thought to reflect underlying individual characteristics equally or perhaps even more than some kind of advantage conferred on members regardless of their personal worth. We obviously cannot disentangle these two effects.⁴³

We ask next, how important is CCP membership for those who are in the top 5 percent? We run the same regressions as in Table 9 but just over the top 5 percent group. The results (Table 10) are quite different: many of the control variables that behaved in expected ways and had highly significant coefficients do not matter for the top 5 percent group. This is not surprising: conditional on being a member of the top, the differences in income are unlikely to depend on observable characteristics such as age, gender, and even education. Only in 2013, and to a lesser extent in 2002, education has a very small (statistically significant) effect,⁴⁴ and private sector owners tend to have higher incomes than other members of the top 5 percent; also, the Eastern region displays a premium of about 9% which in light of its overall higher incomes is not unexpected. The CCP membership, however, is equally insignificant in all four surveys.

When we decide to go a bit further and to look at the role of CCP membership for various social groups, that is, to interact the CCP membership with the social group, we find that CCP membership is only significant for larger business owners. In 2013, the premium amounts to 34% (and is statistically significant at a 5% level; see

TABLE 10 Determinants of income (dependent variable: natural log of disposable adult income; population: top 5 percent of Chinese urban population)

Variable\year	1988	1995	2002	2013
<i>Demographic variables</i>				
Sex (0 = male; 1 = female)	0.13 (0.57)			-0.013 (0.66)
Age	-0.0002 (0.97)	-0.006 (0.28)	0.009 (0.40)	0.008 (0.34)
Age squared	-0.0000 (0.53)	-0.05* (0.02)	-0.000 (0.34)	-0.000 (0.46)
<i>Education</i>				
University	0.03 (0.47)			
Polytechnic	-0.03 (0.55)			
Upper middle school	0.013 (0.75)			
Lower middle school	0.008 (0.84)			
Primary school	-0.023 (0.57)			
Uncompleted primary	-0.074 (0.38)			
Years of education		-0.006 (0.07)	0.011* (0.02)	0.01* (0.02)
<i>Social group</i>				
Owner of larger business	-0.04 (0.82)		0.11 (0.36)	0.30** (0.00)
Entrepreneur (owner of smaller business)	0.32** (0.002)	0.04 (0.91)	0.085 (0.29)	0.29** (0.00)
Professional	-0.03 (0.57)	0.03 (0.28)	0.069 (0.16)	0.04 (0.44)
Government or SOE official	0.08 (0.17)	0.15 (0.19)	-0.01 (0.88)	-0.029 (0.72)
Clerical worker	0.03 (0.35)	0.21 (0.09)	0.01 (0.89)	-0.018 (0.75)
<i>Ownership of place of work</i>				
Collective ownership	0.03 (0.37)	0.05 (0.16)	0.11 (0.15)	0.03 (0.74)
Private	0.05 (0.56)	0.015 (0.90)	0.10* (0.02)	0.01 (0.77)
Foreign	0.05 (0.40)	0.15 (0.90)	-0.04 (0.62)	0.11* (0.04)

(Continues)

TABLE 10 (Continued)

Variable\year	1988	1995	2002	2013
Other	0.06 (0.33)	-0.118 (0.33)	-0.134 (0.39)	-0.02 (0.79)
<i>Region</i>				
East	-0.034 (0.22)	0.105** (0.002)	0.06 (0.24)	0.09** (0.01)
West	-0.055 (0.16)	0.04 (0.32)	-0.013 (0.84)	-0.02 (0.68)
CCP membership	0.09 (0.07)	0.009 (0.86)	0.026 (0.72)	-0.09 (0.22)
<i>CCP membership interacted with:</i>				
Private sector owner	-	0.10 (0.48)	-0.20 (0.32)	0.34* (0.04)
Individual sector owner (self-employed)	-	0.05 (0.82)	-0.04 (0.84)	-0.083 (0.58)
Professional	-0.076 (0.27)	0.024 (0.69)	-0.07 (0.42)	0.04 (0.63)
Government high official	-0.14 (0.09)	-0.023 (0.72)	0.085 (0.38)	0.09 (0.48)
Employee	-0.07 (0.26)	-0.065 (0.33)	0.11 (0.23)	0.09 (0.35)
Constant	8.50** (0.00)	9.82** (0.00)	10.1** (0.00)	11.2 (0.00)
R ²	0.07	0.06	0.07	0.11
(F)	(2.8)	(2.6)	(1.8)	(4.9)
N	977	785	499	688

Note: The omitted category is a worker employed in the state sector in the Central region (professional school graduate for the years where the number of years of education is not available). *p* values between parentheses.

**(*) indicates significance at 5 (1) percent level. All are weighted regressions run with survey sample weights.

Table 10).⁴⁵ The result confirms what we noted above, namely the fact that private sector businessmen who are in 2013 members of the top 5 percent tend to have higher incomes than other members of the top group. But we also show that being a CCP member is especially valuable for them (and is of no significance for other social groups). It is also noteworthy that CCP membership was not significant for the large business owners who were members of the top 5 percent in the previous years.

6 | CONCLUSIONS

Economic and social transformation of China over the period of the past 40 years is without precedent in human history. While the economic transformation was extensively studied, social transformation was not. In this paper, we use for the first time harmonized household surveys covering the period 1988–2013 to study the changes in the characteristics of the richest 5 percent of China's urban population.

We study the changes along several vectors: type of income the top 5 percent receives (wages, property, business income or transfers), its social (class) composition, education level, and regional distribution (East, West, Center). We find dramatic changes in the social composition and educational level of the top 5 percent. While in 1988, three-quarters of the top 5 percent members were high government officials, clerical staff, or workers, in 2013, the single most important group were professionals, and they, combined with small and large business owners, accounted for over one-half of all top 5 percent members. There was more than a 10-fold increase in the share of private sector income received by top 5 percenters. The education level of the top group has also dramatically increased: 44% of its members are university-educated in 2013 compared to only 12% in 1988. The increase in the educational attainment of the top is not solely the result of the rising level of education in urban China. It is more significant than that and is driven by higher returns to education and greater selection into the top 5 percent by the highly educated.

The regional composition of the top 5 percent has not changed much though. All three regions show very similar transformations. As a result, the regional shares in the total top 5 percent income have been stable: Eastern regions received 69% of the top 5 percent income in 1988 and 73% in 2013. This implies that the huge changes in China did not have as much of a regional dimension, as far as top income groups are concerned, as is often argued.

Our data allow us also to look at the importance of CCP membership for people's income. China is unique among countries in providing a distinctly political variable in addition to other individual and group variables. When we compare the social composition of urban CCP membership with that of China's urban population, we find that the two are now more similar than they were in 1988. This may be thought to reflect an effort by the Party to more equally represent different social groups. But when we compare CCP members who are among the richest 5 percent of China's urban population to overall CCP membership, we find rising discrepancies. In fact, CCP members who are professionals or private businesspeople tend to be significantly over-represented among the rich compared to their percentages among overall CCP membership. We thus notice a movement among the rich part of the Party members further away from the rest of the CCP membership as well as from the rest of the urban population.

These results are confirmed when we look at the returns to CCP membership. It is, after controlling for other relevant factors, positive, at 5% in 2013. But for private sector owners who are among the top 5 percent, it is even much more valuable, adding 34% to their income.

Our results show a dramatic change in the Chinese top urban income groups over a relatively short period of time and significant, albeit less dramatic, change in the composition of CCP membership and in its rich top. Today's China's rich are much more educated and more dependent on private sector incomes than in the 1980s. If one were to succinctly characterize the change, it could be said to have consisted in more widespread education, rising returns to education despite its quantitative expansion, and "professionalization" of the top 5 percent.

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DATA AVAILABILITY STATEMENT

All original data and codes are available and instructions on how to download them are given in the Appendix.

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ENDNOTES

- ¹ Data from the 2018 update of the Maddison Project Database.
- ² To find the date when the UK GDP per capita was only \$1,200 would require going back into the later Middle Ages for which the data are quite uncertain. Maddison's numbers for Great Britain for the year 1,000 give \$1,100; the next value is for the year 1,700: \$2,200. If the United Kingdom had reached the level of \$1,200 by (say) approximately 13th century, it would have taken the country six centuries to traverse the path that China traversed in some 40 years.
- ³ Maddison Project Database 2018 update. Available at <https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2018>
- ⁴ But not necessarily wealth—since very little of amenities they enjoyed could be transferred to the next family generation.
- ⁵ This is one of the reasons why the American Current Population Survey in the past used to proceed to top-coding of income so that sudden inclusion of very rich people may not lead to the misleading ascription of excessively high inequality to the year when they were included in the survey. An alternative, initiated recently, is to try to oversample the rich.
- ⁶ Several surveys conducted in former socialist countries in Eastern Europe included a personal political variable on the membership in the Communist party (e.g., the Czechoslovak Social Structure Surveys). But, to the best of our knowledge, this dimension has never been systematically investigated.
- ⁷ Note that productive assets may be more broadly defined, beyond the often-used narrow definition focused on physical or financial capital. For example, in the neo-Marxist framework, productive assets also include labor power, organizations, and skills (Wright 1985; Lin & Wu, 2010).
- ⁸ See Piketty, Yang & Zucman (2019) for evidence of the rising capital share in national income in China.
- ⁹ In cases like this, a potentially useful approach is to analyze social classes defined in terms of authority relations (Dahrendorf 1959). This is however beyond the scope of this paper.
- ¹⁰ There is a large literature, largely in the Marxist tradition, which has insisted on the exploitation of the working class as a defining feature of China's economic transformation (e.g. Harvey 2007).
- ¹¹ See Kaelble (1981) for the general overview on business and political elite recruitment in western countries during their industrialization. Specifically, on the patterns of bureaucratic promotion in China see Jia et al., (2015), Persson and Zhuravskaya (2016), etc.
- ¹² Landry (2008, p. 257) quotes Deng Xiaoping's assumed remark during the "southern inspection tour": "We must pay attention to training people, selecting and promoting to positions of leadership persons who have both ability and political integrity, in accordance with the principle that they should be revolutionary, young, well-educated and professionally competent. This is of vital importance to ensure that the Party's basic line is followed for a hundred years and to maintain long-term peace and stability. It is crucial for the future of China."
- ¹³ Already Moore (1944), in his analysis of the Soviet elites in the 1920-30s, had discerned an increased weight given to political loyalty in elite recruitment (for example, between 1923 and 1936, the percentage of company directors in the Party rose from 29 to 97 per cent (p.269)), yet predicted that concurrent demands for loyalty and competence would bring about tensions in the post-Stalinist period. Inkeles (1960) believed that this tension would lead to the eventual "professionalization" of socialist elites (a view later shared by Konrad and Szelényi 1979), a view sometimes labeled as the "modernization theory."
- ¹⁴ See also Szelényi (1986) for a revision of Konrad's and his original thesis.
- ¹⁵ In fact, Chen and Dickson (2010) argue that their relationship is better described as that of "allies." Also, see Dickson (2003) on the beliefs of entrepreneurs.
- ¹⁶ One hypothesis to explain why economic transformation in China will not necessarily leads to political transformation is that during the transition the people who benefitted the most are those who are "in the system" (members of the CCP, government, or state-owned companies). Thus, these new elites are unlikely to fight against the system.
- ¹⁷ For instance, CHIP 2013 which we use here is a sample drawn from the annual Integrated household survey carried by the National Bureau of Statistics in 2013. The latter contains 160 thousand households in 31 provinces.
- ¹⁸ Recent works based on CHIP include Luo et al. (2020), which analyzes the drivers for the evolution of inequality in China from 1988 to 2013, and Li, Li, and Wan (2020), which extends the literature by studying the top income group in China for the year 2016.
- ¹⁹ Such as wealth inequality (Knight & Li, 2016), return to schooling (Chen & Hamori, 2009), migration (Kong, 2010), saving rate (Zhou, 2014), and rural elites (Han and Gao, 2019).

- ²⁰ CHIP surveys were also conducted in 2008; however, the weight variable of CHIP 2008 has not been released so far and the estimation based on unweighted CHIP 2008 would not provide nationally (or regionally) representative results. Thus, we exclude this survey from our research. For more details, see Sherry Tao Kong (2010).
- ²¹ For instance, for the same question regarding the education level, there were 8 categories in CHIP 1995 and 9 categories in CHIP 2002. For the people with a college education level or above, CHIP 1995 includes them in the same category while CHIP 2002 separates them into two categories: college/university and graduate.
- ²² Goodman (2014, p. 38) explains: "In 1984, market reforms were extended to urban China, although initially development was slow, with some reluctance to take initiatives on the part of potential private business people, and some hesitation from the Party-state. Marx had argued in *Das Kapital* that employing more than eight people led to exploitation. Accordingly, the CCP decided to permit the development of small-scale individual household businesses (*getihu*, 个体户) of up to eight employees. Later, in 1988, somewhat larger private businesses (*siying qiye*, 私营企业) were recognized but these were seen as adjuncts to the state sector, stepping in where the latter was less able to act. Most private business remained small throughout the 1980s."
- ²³ This is due largely to the adoption of new classification and codes of occupation issued in 2009 (GB/T 6565-2009) and changes to the survey questions regarding occupation.
- ²⁴ To be more precise, it includes scientific researchers, engineers and technicians, agro-technicians, aircraft and ship crew and technicians, medical care professionals, economic, financial, and legal professionals, teachers, and professionals in art, literature, culture, sports, press, and religions. For more detailed classification, we refer to classification and codes of occupation, GB/T 6565-1986, GB/T 6565-1999, and GB/T 6565-2009.
- ²⁵ For more detailed classification, we refer to classification and codes of occupation, GB/T 6565-1986, GB/T 6565-1999, and GB/T 6565-2009.
- ²⁶ In 2011 the National Bureau of Statistics (NBS) updated the economic region classification by dividing the country into four major economic regions: the eastern region, which includes Beijing, Tianjin, Hebei, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, and Hainan; the northeast region, which includes Liaoning, Jilin, and Heilongjiang; the central region, which includes Shanxi, Anhui, Jiangxi, Henan, Hubei and Hunan; and the western region, which includes Inner Mongolia, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Qinghai, Ningxia, and Xinjiang. (See National Bureau of Statistics of China. Available online: http://www.stats.gov.cn/zjtj/zthd/sjtjr/dejtjkfr/tjqp/201106/t20110613_71947.htm (accessed on 22 March 2019)). Since our sample covers the period from 1988 to 2013, we adopt the pre-2011 regional classification.
- ²⁷ Also, see the Introduction of CHIP 2013. Available online: <http://www.ciidbnu.org/chip/chips.asp?year=2013> (accessed on 22 March 2019).
- ²⁸ According to the World Bank data (World Development Indicators), China's total GDP in PPP terms was in 2017 equal to 20 percent of world GDP. Chinese urban GDP is estimated at some 70% of All-China GDP (calculated from household surveys).
- ²⁹ Transfers include in addition to the usual social transfers (pensions, child allowances, and the like), various work-related subsidies (bonuses, price subsidies) as well as private gifts.
- ³⁰ The latter number is obtained as the sum of income by private and individual business owners (27%) plus one-third of the income of professionals (around 11%; see Figure 4).
- ³¹ Note that the quasi equivalence of the shares of educational categories by numbers and by total income among the top 5 percent (Tables 2 and 3) implies that incomes of members of different educational groups, once they are part of the top 5 percent, do not differ much. Thus the mean income of university-educated members of the top 5 percent is equal to the mean income of all members of the top 5 percent (their shares in total numbers and in total income is the same: 44%). This was, by the way, the case in 1988 too when both shares were also equal, though at a much lower level of 12%. We shall find the same result below (Section 6): conditional on being in the top 5 percent, returns to education are close to zero.
- ³² "Membership of CPC tops 90 million." *China Daily*, 1 July 2019.
- ³³ By 2019, there are 180 million members in Bharatiya Janata Party.
- ³⁴ "China Communist Party Statistical Communique." Organization Department of the CPC Central Committee, Retrieved 27th November 2019.
- ³⁵ The share of CCP members in each regional population is very similar: for example, in 1988, the shares in respectively Center, East, and West were 22, 20, and 25 percent; at the end of the period, in 2013, they were 20, 20 and 18 percent.
- ³⁶ This result parallels the rising importance of professionals in the top 5 percent as discussed in Section 4.3.

- ³⁷ This type of specification is more commonly used in wage regressions. However, wages account for almost 80 percent of total urban income (see Table 2).
- ³⁸ R^2 is reasonably high, at between 0.25 and 0.28.
- ³⁹ In 1988, professionals commanded a premium of only 8% over workers; in 2013, the premium was 19%. For government or SOE officials, the premium increased from 9% to 15%; for clerical staff from 5% to 10%.
- ⁴⁰ The only other paper of which we are aware that tries to estimate the CCP premium is by McLaughlin (2017) that uses wage data from urban CHIP in 2002. In a formulation that is most similar to ours (in Table 2, equation 3) she finds the return to the CCP membership to be 9%.
- ⁴¹ Xinhua, 30 June 2017, cited in Cabestan (2019, p 156).
- ⁴² Note that this is not an argument against the widely held view that the Party is increasingly recruiting from among opportunistic individuals who are interested in material success and not in ideology. In fact, the argument that the premium rewards higher individual ambition is fully consistent with that view: more opportunistic people are likely to be more ambitious. So indeed as the CCP becomes a Party that is less ideological and more pragmatic, the CCP premium (due to unobserved personal characteristics) may be expected to rise (on this see Li et al., 2007).
- ⁴³ It is interesting to note that in recent years education seems strongly correlated with membership in the top 5 percent but once one is in the top 5 percent, education seems to play only a very minor role.
- ⁴⁴ The premium is estimated, as before, in comparison to a state-sector worker in the Central region who is not a CCP member and is in the top 5 percent.

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SUPPORTING INFORMATION

Additional supporting information may be found online in the Supporting Information section.

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