

This research looks at how rewards function for the labor force in Vietnam as the country undergoes a transition from a socialist centrally planned to a market-oriented economy. Market transition theory espoused by Victor Nee (1989) predicts that a shift will occur in the stratification system whereby advantages possessed by those with political status or authority will decline, while returns to human capital, particularly in the form of education, will increase. The mechanisms behind these changes are identified as 1) a shift in power away from those with the ability to redistribute, in favor of producers, 2) greater incentives attached to increased productivity and 3) new opportunities in the market economy. However, there is strong debate as to what is actually occurring in various countries, with some evidence of continuing advantages to political capital, as well as remaining questions regarding the conditions under which propositions of market transition theory might hold true.

While much research on market transition theory has been carried out on China, Vietnam poses an interesting alternative case. Compared to China, Vietnam is at an earlier stage of the transition process. China initiated its reforms nearly a decade earlier than Vietnam with the benefit of a more developed, albeit very poor economy and hence, its economic structure is more industrialized and its service and non-state sectors relatively more advanced. In contrast, Vietnam's economy is still dominated by agriculture and its private sector is still heavily monitored and influenced by the state. Given these distinctions, it is possible that Party membership will still hold some advantages in Vietnam, particularly in sectors of the economy where reforms have not been carried out as completely. Additionally, in a country where familial ties are highly valued, advantages may be inherited across generations.

Drawing on the ongoing debate of market transition theory, a number of questions may be posed. What is the role of education and Communist Party membership, as a measure of political status, in determining income in Vietnam? Do returns to education and Party membership differ across sectors of the economy? Under what conditions are returns greater? Are advantages from education and Party membership transferred across generations? The objectives of this research are thus, to examine more closely the determinants of income in Vietnam, in particular evaluating the differential role of education and Communist Party membership, in order to better understand the sources of inequality in this transitional society.

Data from the Vietnam Longitudinal Survey from years 1995 and 1996 are used in this analysis. This survey follows residents of ten communes in three provinces in the Red River Delta area in northern Vietnam, selected using probability sampling methods. The sample includes only respondents aged 25 to 65, interviewed in 1995 and again in 1996, considered in the labor force and who reported either wage or business income in 1996. This includes a total of 2,965 individuals. A number of regressions analyses are utilized to assess the main effects of education and Communist Party membership on income. This method allows us to discern the effects of education and Party membership, exclusive of the effects of other determinants of income, namely gender, age, residency and industry. In addition, separate analyses are carried out on wage and business income as well as on agricultural and non-agricultural enterprises to distinguish any differential effects.

The results show that father's educational attainment has a very strong, positive, statistically significant and consistent effect on respondent's income for both wage and business income. In contrast, father's Communist Party membership has differential effects on wage and business income. There is little evidence of important direct effects of father's Party membership on wage income, but positive effects on business income are found. However, this advantage is likely the result of higher levels of education of the children of Party members,

indicating that although Party membership can provide some advantages, education is a more important pathway to higher income.

Respondent's education has a significantly positive effect on income in both the wage and business sectors. This advantage reflects the benefit of increased skills, productivity and entrepreneurship as well as possessing important credentials for obtaining high paid jobs in the wage labor market. However, returns to education are greater in non-agricultural than in agricultural enterprises. Non-agricultural enterprises are faced with increasing opportunities in the new market economy and incentives are based on greater efficiency and productivity. In contrast, agricultural enterprises are still highly subsistence-based and minimally mechanized, in general utilizing traditional methods of cultivation. This leaves the income of farmers highly constrained by resource endowments, limiting returns to education in this large sector of the economy. In contrast to education, respondent's Communist Party membership displays no significant benefits for wage or business income.

Evidence also shows that different patterns of income determination exist between agricultural and non-agricultural enterprises. The finding of significant interaction effects between father's Party membership and industry indicates that political power affects income differently depending on whether one works in an agricultural or a non-agricultural enterprise. The same holds true for interaction effects between father's education and industry as well as between respondent's education and industry. When separating family enterprise income by agricultural and non-agricultural enterprises, very marked differences are seen in the way that father's education and Party membership and respondent's education affect income, being particularly advantageous for non-agricultural industries. Clearly, the distinction between agricultural and non-agricultural work is an important one that helps to delineate the conditions under which education and Party membership affect changes in the stratification order.

Results also show that the intergenerational transmission of advantages from fathers to their children is quite strong, particularly concerning education. Fathers who have higher educations are able to help their children both directly and indirectly, by passing on important skills and values that will improve productivity and efficiency, raising expectations of success and increasing their children's chances of obtaining higher levels of education themselves. Fathers who are Communist Party members also provide important advantages to their children, particularly in newly developing non-farm enterprises where opportunities for rising income are greatest. However, the benefits are primarily accrued by raising children's education, providing further evidence of the greater importance of education in the market economy. This highlights the remaining importance of social networks based on political power in the market economy, where one's high level connections are still valuable, particularly in opening doors for greater opportunities. Possessing political power directly may be less important than possessing valuable contacts through high level social networks.