OPINION

End State-Owned Dominance Now

By G. Bin Zhao

In his push to ensure China's future development, incoming leader Xi Jinping recently called for "bold experiments and brave breakthroughs" to deepen the reform and opening up process. Without this spirit of reform, he stressed, there would be no China today or in the future.

If Mr. Xi is serious about such statements, then his party should direct reforms toward an outcome that, while inevitable in the long run, will nevertheless involve major institutional transformation. The present time provides the best opportunity to change the socialist economic system's reliance on public ownership.

The difficulty of making such a change only underscores the need to start work now. The primacy of public ownership has long been a cornerstone of the Chinese system. China's constitution clearly states that the state-owned economy is "the leading force in the national economy."

The process of amending the constitution to alter this concept will be complex and difficult. But it should not dismissed as impossible or undesirable. Reformers should explain that the proportion of the state-owned economy in the national economy is not the only embodiment of the socialist economic system. Giving up public ownership as the mainstay of China's economy need not lead to comprehensive privatization. Reform will simply help to establish a stronger, more market-oriented economic system.

Reformers should also remind their peers that earth-shaking changes have already taken place in China during the process of moving from a highly planned economic system to the socialist market-oriented economic system "with Chinese characteristics." This shift has prompted a boom in economic development that has lasted for more than 30 years.

> If Xi Jinping truly wants bold reform, he must allow private enterprise to drive China's economic growth.

As China gradually advances its market-oriented economy and pursues more comprehensive development, the contradictions between public ownership and marketization have become increasingly obvious. Now that the goal of market-oriented reform has been further clarified, it is time to rethink whether China should still adhere to the economic foundation of public ownership.

In theory, public ownership refers to a model in which ownership belongs to all people. But this concept has proven to be incompatible with the basic principal-agent relationship in economics.

In China, citizens are the real shareholders of state-owned enterprises, but the people entrust the government to administer ownership. Enterprises are supposed to use reasonable care and skill in performing the duties to maximize shareholders' benefits. But in reality, government officials supervise the enterprises, and the shareholders have no rights and don't receive a fair return.

In other words, the government and enterprises are not in a true principal-agent relationship, but rather in an agent-agent relationship. This can lead the government to fail to exercise its oversight responsibilities as an owner, and is the root cause of severe corruption.

What's more, the fact that state-owned enterprises have a monopoly in many industries is the main obstacle to sustainable economic development. The industries with the lowest efficiency and most economic contradictions are those with a high proportion of state ownership: health care, railways, energy, banking and education, for example.

In contrast, Chinese industries that are highly market-oriented are dynamic and develop rapidly. These include home appliances, textiles, automobiles, food and retail. Companies working in these areas will drive sustainable growth.

Associated Press

A shareholder of a state-owned oil company cleans up its mess.

Look at regional development. The regions that have a well-developed private economy, such as the Yangtze River Delta and Pearl River Delta, have already become the heart of the Chinese economy. They have taken a leading role in national economic development over the years.

Nevertheless, today state-owned enterprises enjoy many privileges in the distribution of the means of production, market competition and legal protection. These advantages have created many inequalities in the country's market economy. Private enterprises, which are expected to lead the way in the ongoing growth of China's economy, struggle to survive and develop.

Based on recent speeches delivered by Xi Jinping, one can conclude that the new leaders have realized that if the country does not adhere to the process of deepening reform and opening up, sustainable development will face serious challenges. As Mr. Xi said himself, it is time to be bold and brave. It is time for China say good-bye to over-reliance on public ownership.

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The Myth of a Stagnant U.S. Middle Class

By Donald J. Boudreaux And Mark J. Perry

A favorite "progressive" trope is that America's middle class has stagnated economically since the 1970s. One version of this claim, made by Robert Reich, President Clinton's labor secretary, is typical: "After three decades of flat wages during which almost all the gains of growth have gone to the very top," he wrote in 2010, "the middle class no longer has the buying power to keep the economy going."

This trope is spectacularly wrong.

It is true enough that, when adjusted for inflation using the Consumer Price Index, the average hourly wage of nonsupervisory workers in America has remained about the same. But not just for three decades. The average hourly wage in real dollars has remained largely unchanged from at least 1964—when the Bureau of Labor Statistics (BLS) started reporting it. Moreover, there are several problems with this measurement of wages. First, the CPI overestimates inflation by underestimating the value of improvements in product quality and variety. Would you prefer 1980 medical care at 1980 prices, or 2013 care at 2013 prices? Most of us wouldn't hesitate to choose the latter.

Second, this wage figure ignores the rise over the past few decades in the portion of worker pay taken as (nontaxable) fringe benefits. This is no small matter—health benefits, pensions, paid leave and the rest now amount to an average of almost 31% of total compensation for all civilian workers according to the BLS.

Third and most important, the average hourly wage is held down by the great increase of women and immigrants into the workforce over the past three decades. Precisely because the U.S. economy was flexible and strong, it created millions of jobs for the influx of many often lesser-skilled workers who sought employment during these years.

Since almost all lesser-skilled workers entering the workforce in any given year are paid wages lower than the average, the measured statistic, "average hourly wage," remained stagnant over the years—even while the real wages of actual flesh-and-blood workers employed in any given year rose over time as they gained more experience and skills.

> Household spending on basics has fallen from half of disposable income in 1950 to one-third today.

These three factors tell us that flat average wages over time don't necessarily support a narrative of middle-class stagnation. Still, pessimists reject these arguments. Rather than debate esoteric matters such as how to properly adjust for inflation, however, let's examine some other measures of middle-class living standards.

No single measure of well-being is more informative or important than life expectancy. Happily, an American born today can expect to live approximately 79 years—a full five years longer than in 1980 and more than a decade longer than in 1950. These longer life spans aren't just enjoyed by "privileged" Americans. As the New York Times reported this past June 7, "The gap in life expectancy between whites and blacks in America has narrowed, reaching the lowest point ever recorded." This necessarily means that life expectancy for blacks has risen even more impressively than it has for whites.

Americans are also much better able to enjoy their longer lives. According to the Bureau of Economic Analysis, spending by households on many of modern life's "basics"—food at home, automobiles, clothing and footwear, household furnishings and equipment, and housing and utilities—fell from 53% of disposable income in 1950 to 44% in 1970 to 32% today.

One underappreciated result of the dramatic fall in the cost (and rise in the quality) of modern "basics" is that, while income inequality might be rising when measured in dollars, it is falling when reckoned in what's most important—our ability to consume. Before airlines were deregulated, for example, commercial jet travel was a luxury that ordinary Americans seldom enjoyed. Today, air travel for many Americans is as routine as bus travel was during the disco era, thanks to a 50% decline in the real price of airfares since 1980.

What's true for long-distance travel is also true for food, cars, entertainment, electronics, communications and many other aspects of "consumability." Today, the quantities and qualities of what ordinary Americans consume are closer to that of rich Americans than they were in decades past. Consider the electronic products that every middle-class teenager can now afford—iPhones, iPads, iPods and laptop computers. They aren't much inferior to the electronic gadgets now used by the top 1% of American income earners, and often they are exactly the same.

Chad Crowe

Even though the inflation-adjusted hourly wage hasn't changed much in 50 years, it is unlikely that an average American would trade his wages and benefits in 2013—along with access to the most affordable food, appliances, clothing and cars in history, plus today's cornucopia of electronic goods—for the same real wages but with much lower fringe benefits in the 1950s or 1970s, along with those era's higher prices, more limited selection, and inferior products.

Despite assertions by progressives who complain about stagnant wages, inequality and the (always) disappearing middle class, middle-class Americans have more buying power than ever before. They live longer lives and have much greater access to the services and consumer products bought by billionaires.

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