End State-Owned Domination Now

By Gao Rongfu

In his push to ensure China’s future development, incoming leader Xi Jinping called for “bold experiments and brave reforms” to deepen the re-
form of the state-owned enterprise system. Without this spirit of reform, he stressed, there would be no China today and there would be no socialism with Chinese characteristics.

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

China’s economy need not lead to a comparison with the socialist world. 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-oriented economic system “with Chinese characteristics.” This shift has prompted a boom in China’s economic development that has lasted for more than 30 years. 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 is held by all people. But this concept has long been incompatible with the basic principal-agent relationship in economics. In China, citizens are the real shareholders of state-owned enter-
prises, 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 have a fair voice.

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 indus-
tries 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 more efficient. These include home appliances, textiles, automobiles, food and re-
tail. Companies working in these areas will drive sustainable growth.

Look at regional development. The regions that have a well-de-
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 enter-
prises, which are expected to lead the way in the ongoing growth of China’s economy, struggle to sur-
vive 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, sus-
tainable 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 pub-
lic ownership.

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tional Group, a global China consulting firm.

The Myth of a Stagnant U.S. Middle Class

By Donald B. Boudreaux

And Mark J. Perry

The US economy has stagnated economically since the 1970s. One version of this claim, made by President Barack Obama and his Clinton’s secretary of commerce, is typically: “After three decades of flat wages during which millions of Americans stopped growing, the average 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 is narrowing, reaching the lowest point ever re-
corded.’ This necessarily means that all life expectancy for blacks has risen even more impressively than it has for whites.

According to the Bureau of Economic Analysis, spending by house-
holds on modern life’s ‘basics’—food at home, automobiles, clothing and footwear, household furnishings and equipment, and home-related services—fell from 19.9% of disposable income in 1950 to 4.4% in 2010.

One underreported result of the dramatic fall in the cost (and rise in the quality) of modern ‘ba-
sics’ is that, while income inequality might rise when measured in dollars, it is a phenomenon that is well

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