

**Government without Policies: Management of Economic and Social Development  
in Hong Kong, 1945-1985**

by

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Throughout the second half of the last century, the Hong Kong government's overriding priority was economic expansion. The results of this strategy have been widely applauded, and with good reason.<sup>1</sup> Every year without exception from 1961 to 1997, Hong Kong recorded positive growth of GDP in real terms.<sup>2</sup>

In the 1960s and 1970s, the Hong Kong economy expanded at a robust pace averaging at around 9% per annum... As the economy became increasingly mature, Hong Kong's economic growth proceeded at a slower rate of around 6.5% per annum in the 1980s... The Hong Kong economy still maintained a steady and notable growth in the early to mid-1990s, averaging at around 5% per annum between 1991 and 1997.

Behind the growth statistics lay a commitment to allowing business to grow regardless of the consequences. A. G. Clarke, Financial Secretary in the 1950s, believed in giving business its head. For example, he opposed government intervention to regulate firms which were abusing a monopoly situation. Their exorbitant profits he described as the result of 'efficient organization and efficient operation'.<sup>3</sup> Sir John Cowperthwaite, Financial Secretary in the 1960s, was prepared stand idly by even when, as he put it, the growth rate was threatening 'uncomfortable, even injurious, effects on some individuals or some sectors'.<sup>4</sup> For him, measures to stabilize markets were not an option: growth was the goal.<sup>5</sup> His successor in the 1980s, Sir Philip Haddon-Cave, took much the same view. He refused to take action to stabilise the financial sector in the 1970s out of fear that an attempt to impose regulations on the

secondary banking market would cause many of these firms to close, which would undermine the growth of Hong Kong as a regional financial centre.<sup>6</sup>

This single-minded approach involved economic distortions as well as social costs. It is a striking paradox of the Hong Kong economic ‘miracle’ that while the efficiency of the economy as a whole was remarkable, inferior standards prevailed even in sectors which ought to have been crucial to the modernisation process. The financial sector offers a particularly important example. The quality of banking and financial markets is widely believed to be a leading factor in promoting economic development.<sup>7</sup> In Hong Kong’s case, although it can be shown that the banks financed the transformation of this small, impoverished British colony on the south China coast into a world-class manufacturing centre after World War II,<sup>8</sup> the financial sector was plagued by instability, fraud and imprudent management until the mid-1980s, which the government did little to rectify. For example:

- Officials delayed the introduction of banking supervision to protect depositors on the grounds that Chinese bankers would object and that the Chinese community did not expect its deposits to be safe and made little fuss when banks failed.
- The colonial administration was anxious to attract overseas financial institutions to Hong Kong. As a result, international banks were never made subject to statutory limits on their lending. Regulation of deposit-taking companies (DTCs) was introduced only reluctantly in the 1970s, despite evidence that their activities fuelled inflation and financed dangerously speculative projects.
- The colonial administration recognised that company legislation was obsolete in the 1960s but modernisation made little progress until after a stock market collapse and

attendant corporate scandals in 1973.<sup>9</sup> This reform package was known to be inadequate, and the new regulatory arrangements were not fully funded but these problems remained unresolved until after another financial crisis in 1987.<sup>10</sup>

These examples conflict with Hong Kong's overall economic record which is so striking by comparison both with elsewhere in the Asian region and with the rest of the British Empire. They are also at odds with the reputation which the government won in the last century for its rational policies and skilled administrators.<sup>11</sup> But they were not unique to the management of monetary affairs. The government's handling of social problems offered striking parallels. For example:

- Legislation to reduce the working hours week for factory workers was postponed on the grounds that the business community objected and that Chinese workers liked long hours.<sup>12</sup>
- The colonial administration was anxious to retain the services of overseas professionals. For this reason, a confidential policy – concealed from the legislature – guaranteed every expatriate child a place in a primary or secondary school from the mid-1950s. Compulsory education for Chinese children was not introduced until 1971 at the primary level and not until seven years later at the secondary level.<sup>13</sup>
- In 1967, an official report set out the case for a mandatory provident fund to provide for workers' retirement and for social insurance to protect the labour force against illness, unemployment and other hazards.<sup>14</sup> The Financial Secretary killed the proposal through alleging – quite wrongly – that, it was 'vitiating...by an emotional prejudice against employers in general and profits in particular'.<sup>15</sup>

## Excuses and explanations

Inadequate economic policies are explained by some critics as the inevitable outcome of the colonial system itself. The colonial administration has been accused of adopting policies which handicapped Hong Kong's modernisation and frustrated industrial development in order to protect United Kingdom interests and to maintain the political power of British-owned financial and commercial firms.<sup>16</sup> As a result, it is claimed, Hong Kong was left in a technological backwater.<sup>17</sup>

This explanation for the colonial administration's policy choices is not convincing. The counter-claim has been made that 'most manufacturers in Hong Kong chose not to upgrade their technology' principally because traditional manufacturing practices and even the services sector offered better profit opportunities.<sup>18</sup> The statistical evidence indicates that Hong Kong's performance in the second half of the last century more than matched other Asian states whose governments directly managed economic and social progress.<sup>19</sup> As to subservience to United Kingdom interests, it will be shown later that Hong Kong officials resisted 'interference' from London consistently and, almost always, successfully during this period.

Defective social programmes are sometimes viewed as the unavoidable result of the government's commitment to business interests and, consequently, to *laissez faire*. 'In almost all aspects of public life', it has been claimed, 'Hong Kong is about business. The policy of non-intervention is largely a reflection of this reality'.<sup>20</sup> The consequence

of giving priority to profits, to quote Robert Heilbroner, is that ‘a society where economic activities are ruled by the market will be an attentive servants of the rich, but a deaf bystander to the poor. As a result, there is always a moral vulnerability to the micro-order that the market produces’.<sup>21</sup> In Hong Kong, it has been alleged, ‘economic growth has been cynically bought by a combination of expatriate and indigenous industrialists under the aegis of an expatriate bureaucratic oligarchy, so that tremendous profits co-exist with unnecessary squalor in the slums’.<sup>22</sup>

In reality, *laissez faire* was no more than an excuse. Non-interventionism was a matter of convenience rather than ideology. Officials were always prepared to consider government intervention if there were a probability of significant economic gains.<sup>23</sup> Furthermore, the argument has been made that, however inadequate, the government’s involvement in the provision of social services generally – and of housing in particular – made a crucial contribution to Hong Kong’s economic success after World War II.<sup>24</sup> ‘Provision of public rental housing at subsidized rates remained the greatest investment of government in industry’, it has been declared, ‘It contributed substantial benefits to low-wage, labour-intensive industries, yet also benefited other sectors that employed low-wage workers’.<sup>25</sup>

This paper will suggest that policy making in Hong Kong was shaped by a combination of the ‘anti-Western’ convictions of senior officials and their rejection of modern macroeconomic theory until the 1980s. The presentation begins with the policy setting and the in-built defects of the decision-making process in Hong Kong. It then analyses the anti-Western sentiments many of which, paradoxically, the colonial administration shared with other Third World governments. The discussion focuses

next on the intellectual influences on the policy-makers and their rejection of Keynesian economics. Finally, it discusses the political context which allowed the colonial administration to pursue policies which often obstructed economic and social well-being.

## **The policy process**

In theory, there was a well-defined system, common to all British colonies, by which policy proposals were processed by the bureaucracy and passed through either the Colonial (later Chief) Secretary or Financial Secretary to the Governor for consideration by his Executive Council and then presented to the Legislative Council if legislation or public funding were required. In Hong Kong, policy making was much less structured in practice than elsewhere in the colonial empire. From the government files available in the Public Records Office, it is clear that decisions were taken in a haphazard way, usually after casual discussion and often not even recorded formally. The absence of bureaucratic procedures seemed reasonable enough because affairs were in the hands of a small, mainly expatriate, group who totalled 42 in 1950, 67 in 1964 and only 86 ten years later.<sup>26</sup> In reality, this style of 'flat management' was part of a disdain for structured policy making that was not found in other colonies.<sup>27</sup> The result was that across a broad range of areas in which the government was responsible for providing services, there were no policies to guide their development.

Mass public housing programmes are regarded as a major achievement of British rule, and they provided permanent homes for 52 cent of the population by 1997.<sup>28</sup> The

vast investments in the Government's housing programmes did not mean, however, that they were guided by a comprehensive and integrated policy. On the contrary, as the leading authority on town planning in Hong Kong has pointed out, 'short-term thinking and policy-making with limited horizons' marred the post-war achievement of building eight new cities. 'Even though they are creations with major long-term consequences', he added, 'Formative decisions have proceeded on an incremental, pragmatic basis, as with much else in Hong Kong planning'.<sup>29</sup>

As Hong Kong developed economically and socially and became more complex to administer, the Government began to recognise the need to forecast the physical and financial requirements of its programmes, and medium-range planning increased in the 1970s.<sup>30</sup> But policy remained very often a minor concern. For example, a government Study Team set up in 1990 to review the educational field found that policy-making appeared to have collapsed. There was 'no concise or comprehensive statement of education policy or strategy, by way of which guidance could be given to the [Education] Department on operational priorities and allocation of resources'.<sup>31</sup>

## **The dangers of Westernisation**

The British rulers always had a strong sense of how 'different' the Chinese population was, an attitude inspired originally by racial prejudices. After World War II, officials frequently sought to be sensitive towards what they regarded as Chinese social customs.<sup>32</sup> This approach was influenced colonial perceptions of 'Chinese' economic behaviour, leading to the conclusion that the Chinese business world could not be



expected to operate in the same way as modern, 'Western' firms. For example:

- Hong Kong was freed from the obligation to introduce an income tax which other colonies were forced to adopt in 1922 because of '...the peculiar circumstances of Hong Kong and the Chinese attitude towards income tax'.<sup>33</sup> Hong Kong's exemption was renewed after World War II because of such special factors as the way in which Chinese defined dependents to include relatives other than an individual's own children.<sup>34</sup>
- After World War II, Hong Kong's industrialisation was said to be unsustainable because Chinese residents were happy to operate in unsuitable premises and produce low-quality goods.<sup>35</sup> Wages were low, it was said, thanks to 'the importance of family ties in Chinese life with its attendant obligations to work for near and remote relatives'.<sup>36</sup>
- Financial security was said to have no attractions for the Chinese depositor, who preferred speculation and high returns.<sup>37</sup> In 1948, the government rejected as unfair the proposal that only limited companies should be given bank licences on the grounds that the typical local Chinese-owned bank was unfamiliar with the statutory obligations that incorporation would bring.<sup>38</sup>

This reluctance to impose 'Western' standards on the colonial administration's Chinese constituents was reinforced by the colonial administration's defective analysis of Hong Kong's economic situation. Not until the late 1970s did the government have the range of economic and social statistics taken for granted in most modern societies.<sup>39</sup> As a result, officials tended to regard the colony as a thoroughly Third World community whose ability to provide jobs and housing for its people was

always in doubt and whose economic prospects were uncertain. ‘We can never hope to catch up with [Western countries] because our only competitive advantage is clearly lower labour costs’, the Governor declared in 1964.<sup>40</sup> He was oblivious to the fact that Hong Kong had been suffering from a severe labour shortage since the start of the decade.<sup>41</sup> Furthermore, by the middle of the 1960s, Hong Kong had become the West’s leading source of light industrial products.<sup>42</sup> Its growth rates were, arguably, unparalleled in economic history.<sup>43</sup>

Nevertheless, the government repeatedly warned the community not to compare the quality of its programmes with the United Kingdom or Commonwealth countries.<sup>44</sup> The Financial Secretary frankly admitted in the 1960s to ‘substantial gaps in [the] structure of policies and programmes’, but these were not the result of a shortage of funds, he confessed on several occasions.<sup>45</sup> He was reflecting an important preconception of the colonial culture: Hong Kong could not aspire to higher standards because quality was a Western prerogative.

- In the 1960s, the Financial Secretary publicly declared that the Western-trained professional should abandon any desire to work to ‘the highest professional standards he knows’ because of Hong Kong’s inferior economic situation.<sup>46</sup>
- In the 1980s, when Hong Kong was a mature industrial economy and about to become a leading international business and financial centre, a new Financial Secretary denounced those who sought improvements in public services as irresponsible do-gooders advocating unaffordable Western innovations.<sup>47</sup>

The colonial administration was not alone in its opposition to imitating the West. There was a 'respectable' academic opinion in the 1950s that the Third World could not afford to import the aspirations of Western democracies.<sup>48</sup>

In the now advanced countries the welfare state appeared only after generations of industrialization. In the present underdeveloped areas the usual policy seems to reverse this process. Most of these countries want the blessings of the welfare state today, complete with old age pensions, unemployment insurance, family allowances, health insurance, forty- hour work-week, and all the trimmings... it seems likely that the material standard of living of European wage-earners declined in the first stages of the Industrial Revolution. In terms of actual welfare, the industrial slum dweller in eighteenth century England was almost certainly worse off than the peasants who were their forebears.

The justification offered for this warning was the shortage of capital resources which was seen as the overwhelming obstacle to growth in the Third World.<sup>49</sup> This led to the belief that prosperity could be attained only if welfare spending were held down, a view of the modernisation process based on the West's experience of economic take-off. This historical parallel was not relevant to Hong Kong, Its rates of both investment and growth were much higher than during the United Kingdom's Industrial Revolution, which made faster social progress affordable for the colony.<sup>50</sup> Officials, nevertheless, saw a conflict between social services and business growth. Even though the government's provision of public housing and industrial sites has been compared to programmes in 'some socialist countries',<sup>51</sup> officials made it plain to the community that there was no question of introducing a 'welfare state'.<sup>52</sup>

## In place of 'home rule'

The colonial administration itself had chosen to side with the business community and obstruct any moves towards internal self-government for Hong Kong after World War II despite an initial pledge to embark on constitutional reform in line with the rest of the British Empire. This decision was not inspired by loyalty to London. Indeed, a dominant aim of Hong Kong officials was to achieve the maximum informal autonomy. This ambition was encouraged by the long-standing practice throughout the British Empire of letting the individual colony manage its own affairs, especially when it aroused as little interest public interest in the United Kingdom as Hong Kong did for most of the time.<sup>53</sup> But the desire for the administrative convenience that such devolution brought was not the only influence on the colonial administration's outlook. Colonial officials frequently had serious misgivings about the intrinsic nature of the colonial relationship.<sup>54</sup> This mistrust can be traced back to the previous century and the writings of John Stuart Mill, a dominant figure in Victorian England whose influence lasted until the 1930s.<sup>55</sup>

Mill regarded colonial economies as no more than an extension of the United Kingdom. The monetary arrangements adopted by almost all British colonies were dominated by currency boards, which made it easy to justify this view. To quote a well-known British and Hong Kong central banker: 'Local banks were merely branches of London banks, maintaining their basic liquidity in London'. The result was that 'the local economy could be regarded substantially as part of the British economy, in much the same way as a state of the USA is part of the Union'.<sup>56</sup> One colonial economist went

so far as to assert: 'Whatever political and strategic reasons there may be for their being under the British flag, from the standpoint of trade the colonial territories are essentially specialized producing parts of a widespread economy which has its financial, industrial, and managerial center in the United Kingdom'. So much so, she argued, that British trade with the colonies ought not to be regarded as 'foreign' but as part of the United Kingdom's domestic commerce.<sup>57</sup>

In all but a few colonies, the 'modern' sector of the economy was confined to export industries which were owned and controlled by United Kingdom companies. These raised their capital and bought their equipment from that country. The largest share of their export earnings was remitted to the United Kingdom as dividends to British shareholders, to service London loans and to import British machinery. The result was a continuous export from the colony to the United Kingdom of capital resources, a distinguished colonial official pointed out before World War II.<sup>58</sup> In the post-war era, the same complaint was voiced vigorously about the Third World as a whole.<sup>59</sup>

Could it not be that in many cases the productive facilities for export from underdeveloped countries, which were so largely a result of foreign investment, never became a part of the internal economic structure of those underdeveloped countries themselves, except in the purely geographical and physical sense? ... if the proper economic test of investment is the multiplier effect in the form of cumulative additions to income, employment, capital, technical knowledge, and growth of external economies, then a good deal of the investment in underdeveloped countries which we used to consider as "foreign" should in fact be considered as domestic investment on the part of the industrialized countries.

Hong Kong officials were aware of this controversy and were determined that

this colony would not be exploited through such integration into the United Kingdom.<sup>60</sup> They were suspicious even of London's development programmes to promote the colonial empire's social and economic progress. The basis for these misgivings was expressed bluntly during the colonial administration's struggle to rehabilitate the economy after the Japanese invasion and occupation.<sup>61</sup>

I am doubtful in any case of the economic wisdom of bringing in outside capital, the return on which leaves the Colony, if it is not strictly necessary (just as I am not sure of the long term wisdom of accepting Colonial Development. and Welfare assistance). One of Hong Kong's advantages over less developed colonies is that wealth has tended to remain here rather than return in the shape of dividends to the U. K.

It helped that the colonial administration was confident that Hong Kong could manage very well without the United Kingdom.<sup>62</sup>

Hong Kong ... does not suffer from lack of capital ... and it is largely true that any worthwhile project will find local backers... from Hong Kong's point of view we should stand on our own feet and will be all the better for it in the long run. There is still a certain enterprising spirit abroad here; without it Hong Kong might as well pack up.

This confidence in Hong Kong's financial self-sufficiency continued to sway senior officials for several decades. In the 1950s, London was told bluntly that finance was not the problem.<sup>63</sup> 'There is no lack of local capital', the colonial administration insisted, 'but rather of opportunities for profitable and secure investment'.<sup>64</sup> In the 1960s, the government was under considerable pressure from the business community to raise development capital from the World Bank and similar agencies. Once again, the

colonial administration preferred self-reliance. Internal correspondence also shows that Hong Kong officials feared that assistance from international or United States agencies would be conditional on falling in with their development strategies.<sup>65</sup>

Not that the colonial administration believed that private investors were beyond reproach. The government did everything possible to make life easy for the foreign investor, but officials understood that costs were involved, as Cowperthwaite explained in the 1950s while making the case that the power companies were abusing their power and should be brought under control. The key argument in his confidential police advice shows how open to exploitation he believed the colony to be.<sup>66</sup>

Everyone agrees that our economy must be free but some take that as meaning it should be so free as to allow the creation of monopolies and their exploitation. It is perhaps true that it is a condition of *capital's willingness to come to or remain in Hong Kong that rather greater freedom be given for exploitation of that sort than the U.S.A. would tolerate*, but there must be limits and I believe that in present-day circumstances these limits are narrowing, looked at both from the economic and political points of view. (emphasis added)

This sense of the vulnerability of colonial economies to foreign exploitation –by the United Kingdom in particular – helps to explain the robust responses from Hong Kong officials to directives from the Colonial Office in London. Exchange controls provided the earliest examples. In the average colony, a well-known authority on colonial economies observed, ‘the currency has no independent existence of its own, but is simply parasitical upon sterling’.<sup>67</sup> The leading academic expert on this topic in the 1950s declared that ‘the colonies are in practice overseas parts of the United Kingdom

monetary system, and have no responsibility for maintaining foreign exchange reserves or taking any other measures that would affect the value of their own currencies'.<sup>68</sup>

Hong Kong could not accept such a totally subordinate relationship. Historically, the colony had been dependent on trade and investment in the rest of China. This dependence ended when the Chinese Communist Party came to power in 1949 and the state took control of foreign trade and finance. Subsequently, Hong Kong's manufacturing take-off benefited from preferential access for its exports to the United Kingdom thanks to its colonial status. But British protectionism in the 1950s meant the colony had to develop major markets in North America and Continental Europe.

The China relationship enabled the colony's officials win the right to maintain a free currency market and minimal exchange controls, privileges enjoyed by no other member of the Sterling Area after World War II.<sup>69</sup> In exercising this right, the colonial administration was as 'protectionist' as any colonial territory which had won home rule. It had nothing to gain from enforcing Sterling Area or British regulations, one senior official commented, because they were not 'of any particular benefit to Hong Kong'.<sup>70</sup> The governor personally instructed that exchange controls should be applied as mildly as possible.<sup>71</sup> The result was that even on such issues of considerable significance to the United Kingdom as its aviation industry, the colonial administration did not seek to force the Hong Kong flag-carrier, Cathay Pacific, to buy British rather than United States aircraft.<sup>72</sup> This adversarial relationship covered a wide range of government responsibilities. The examples of this insistence on autonomy include the failure to implement Colonial Office policies on promoting industrial investment, protecting bank depositors, reducing the working week for factory workers and women's rights.



## The rejection of economics

A serious consequence of the ‘informal’ approach to policy making described above is that the factors which shaped decisions and the priorities which set the goals for government programmes are usually obscure. It is particularly difficult to trace the ‘ideological’ influences which created such a powerful administrative culture in Hong Kong. Laissez faire was not the dominant factor. It had not been an ideological commitment since the 1930s, and officials were under no illusion that laissez faire was the foundation stone of Hong Kong’s prosperity in the second half of the century. True, the colonial administration proclaimed that ‘in the sphere of economic policy the acid test of good Government in certain circumstances is a willingness to run the gamut of short term criticism and decide *not* to do something’.<sup>73</sup> Nevertheless, the exceptions to this maxim were abundant. In the case of textiles, for example, the government openly boasted of its success in creating an elaborate system of export licensing which guided the industry’s development and minimised competition, both domestically and in overseas markets, in order to overcome Western protectionism in the 1960s.<sup>74</sup> Again, by the late 1970s, the government had to come to accept that that the colony could not flourish as an international financial centre without an effective regulatory system covering all deposit-takers.<sup>75</sup>

After World War II, the one issue on which there was any public discussion by officials of theoretical policy principles was economic management. On this topic, the government proclaimed a vigorous distaste for Keynesianism. From today’s standpoint, that declaration seems unremarkable and in line with a general trend among both

government and academic economists. In the early post-war decades, however, it had considerable implications for the day-to-day management of Hong Kong affairs. The dismissal of Keynes amounted to a rejection of macroeconomic theory in general. It also meant that the government refused to investigate or measure national income until the 1970s; and it never produced balance of payments estimates throughout British rule. The colonial administration thus closed the door to serious analysis of the both the overall economy and the way in which individual sectors contributed to economic growth because the tools of macroeconomics and the information derived from national income accounts were rejected.

In place of modern economics, Hong Kong's policy makers until late in the 1970s clung to the view that the economy was guided by an automatic adjustment mechanism. Haddon-Cave offered the best summary of why, like his two predecessors, he believed that, given the nature of the Hong Kong economy, the government was tied to non-interventionism.<sup>76</sup>

The Government does not attempt to regulate the economy either through its expenditure decisions or in other conventional ways, using monetary or fiscal devices. This is because the money supply is largely determined by the balance of trade as influenced from time to time by capital movements; whilst any major attempt to regulate demand through variations in tax rates or internal borrowing would tend to bring about changes in expenditure on imports rather than influence the volume of domestic output in the required direction.

The foundations for this belief were never elaborated for the benefit of the community. It was derived ultimately from the officials' perceptions of how the currency board system operated and was used to justify the contention that government

intervention was not only redundant but perhaps perilous. The term ‘currency board’ was not part of the government’s vocabulary,<sup>77</sup> but there is clear evidence to show that the government’s faith in the automatic adjustment mechanism was grounded in its understanding of the academic debate about colonial currency boards in the 1950s.<sup>78</sup>

## **The people problem**

The conviction that Hong Kong’s economy was self-regulating went hand-in-hand with a pessimism about the quality of economic growth, its sustainability and its capacity to solve a community’s problems. Even when the manufacturing boom was well under way in the 1950s, the government felt considerable anxiety about whether the economy could hope to ‘even maintain the existing standard of living of the under-privileged’, let alone think in terms of achieving prosperity.<sup>79</sup> Two decades later, the government was warning that Hong Kong had been shielded from the world’s economic problems in the past but now faced an uncertain future.<sup>80</sup> In the early 1980s, the secret Sino-British negotiations on the future of Hong Kong provided a new excuse for regarding economic prospects as doubtful. Thus, the colonial administration decided not to start work on the urgently needed replacement airport, a misguided decision that was to impose severe political as well as economic costs on Hong Kong during the rest of British rule.<sup>81</sup>

This lack of confidence was part of the colonial legacy inherited principally from John Stuart Mill. He was not convinced of the benefits of economic growth and saw population increases as a serious burden on society.<sup>82</sup> It was Keynes who countered this

despondency, both about the growth process and demographics.<sup>83</sup> The rejection of Keynesianism in Hong Kong allowed pessimism about both economic performance and population to remain a crucial element in the colonial administration's post-war culture. Ironically, the government had taken a much more positive attitude towards an influx of 650,000 refugees in 1937-38 when Hong Kong was far poorer.<sup>84</sup> Officials then had responded by actively promoting both social services and industrialisation.<sup>85</sup> By contrast, the most important public statement of government policy in the 1950s was entitled 'A Problem of People'. The title itself summed up the colonial administration's philosophy: the community itself was a burden.<sup>86</sup> Indeed, officials hoped to ship part of the population to some other Pacific territory.<sup>87</sup>

Doubts about the economy's ability to cope with tide of post-war immigrants were wholly misplaced. United Kingdom officials regarded the colonial administration's forebodings as deliberately alarmist. As early as the 1950s, they described Hong Kong as 'rolling in money' and noted on file how buoyant revenues were despite the Financial Secretary's gloomy forecasts.<sup>88</sup> Real GDP per head grew by an annual 6.3 per cent in the 1960s and 1970s; 5.8 per cent in the 1980s, and 3.4 per cent 1990-97.<sup>89</sup> Yet, the sense of being swamped with people, combined with a feeling of economic insecurity, persisted and encouraged the colonial administration to take a very narrow view of the role of social development in the pursuit of economic progress.

The consensus among post-war development economists was that economic growth in the Third World would require heavy investment in social development which governments would have to organise and which would be funded, almost certainly, through higher taxation.<sup>90</sup> Anti-Keynesianism and a belief in the

self-regulating Hong Kong economy made Hong Kong officials anxious to avoid serious commitments to social development. After all, if increased spending to counter a recession was to be considered perilous, how could the colonial administration justify subsidising services whose primary justification was either social well-being or social development?

This attitude led to a refusal to consider proposals whose primary objectives were social but which also offered economic benefits. Thus, in the 1960s, government spending on schools was not seen as an investment in the workforce of the future and its productivity. Indeed, Cowperthwaite publicly doubted whether a state system of subsidised education was justified. For as long as possible, therefore, he set his face against free and compulsory education.<sup>91</sup> Similarly, in allocating government-owned industrial space, the priority was strictly business, and social considerations were to be ignored. No special treatment was to be given to manufacturers operating in domestic buildings because it was wrong, the Financial Secretary believed, to give preference to these factories simply because they 'are causing either a hazard or a public nuisance'.<sup>92</sup> The economic gains from shifting production to properly designed and equipped industrial buildings were not considered relevant.

In the 1970s, the distinction between economic and social gains seemed to become less pronounced because the 1970s. The colonial administration now needed to invoke its subsidised housing and social programmes as an antidote to inflation when it was under considerable business and community pressure to take direct measures to stabilise prices.<sup>93</sup> However, anti-Keynesianism remained a potent force and clearly linked to the government's reluctance to make any commitment to social

responsibilities, as Haddon-Cave explained in the 1970s: ‘The purpose of the fiscal system is to appropriate a suitable proportion of this community's resources for public expenditure and not, in addition, pursue social justice or to manipulate – or rather try to manipulate – the rate and pattern of economic growth’.<sup>94</sup>

## **Political protection**

To survive, the colonial administration could not completely ignore the community. Banking scandals, for example, led to regulation when the political costs of angry depositors became too high. The result was that government was ‘selective’, and over the broad range of areas for which the colonial administration appeared to have responsibility, policies were often patchy or inconsistent and enforcement was perfunctory until the 1970s or even later.<sup>95</sup> This state of affairs did not make the colony ungovernable because of the peculiar political system. The power structure was dominated by representatives of the business and professional classes, and the legislature was made up entirely of civil servants and government appointees until 1985. One London official noted that the absence of representative government guaranteed that the colonial administration would be able to minimise its involvement in economic and social development.<sup>96</sup>

The facts that there is a Governor with a nominated Legislative Council and a climate of effective opinion, business opinion, which favours private enterprise rather than government activity, should be the best safeguards of responsible and economical financial policy in the colony – certainly better safeguards than would be a constitution giving the vote and influence to the working classes,

as distinct from the business classes, because the working classes might be expected to require more of a welfare state and hence a great increase in government expenditure.

As a result, unlike other Third World societies, the colonial administration found it relatively easy to avoid committing itself to a development programme, despite Colonial Office encouragement to do so.<sup>97</sup> A prominent development economist listed the attractions of such programmes in the 1950s. They set out the community's aspirations for better living standards and mobilised support for the government. They were a prerequisite to applications for foreign aid. They provided the justification for increased taxation to finance development.<sup>98</sup> The previous discussion in this paper makes plain why these political bonuses were of no concern to the colonial administration.

Instead of a quest for popular support, Hong Kong's political arrangements allowed the colonial administration to take an almost commercial view of its constituents. In the 1960s, drought reduced the water supply to four hours every fourth day which aggravated the discomfort of the squalid tenements and shanties in which a majority of the community spent the tropical summer. 'I cannot myself see any grounds for the belief that a twenty-four hour domestic water supply is an inalienable right of civilized man', declared the Financial Secretary, 'It may be, if he can afford it and is prepared to pay the price'. This official's political survival was never at risk, however, even though he confessed: 'I am considered inhumane or unprogressive or sometimes merely odd, by some of my colleagues as well as members of the public'.<sup>99</sup>

At the end of the 1970s, it was still possible for a government-appointed member of the legislature to resist the introduction of free and compulsory education. 'We are

experiencing a serious and acute shortage of skilled labour. This will no doubt be further aggravated by Government's intention of providing free and subsidized education' complained this leading textile manufacturer. 'There is a danger that more young people than ever before will choose to continue full-time education rather than employment if they had the choice', he added, ignoring the law that already forbade factory work by children under 16.<sup>100</sup>

The British rulers preferred to let the Chinese community solve its own problems as far as possible. While this attitude seems to parallel economic *laissez faire*, the rejection of responsibility for social affairs was less defensible. There was no obvious automatic adjustment mechanism to be invoked to rectify the supply of housing, schooling or medical and welfare facilities in the way that real estate or the stock market would respond to changes in interest rates. Moreover, the obvious mechanism for self-regulation of the community's problems was lacking: there was no representative government.

## **Conclusions**

By the end of the last century, there was a sharp contrast between the emergence of a thriving post-industrial society and the survival of so many institutions and systems that were thoroughly backward.



- There was neither a central banking institution nor a completely level playing field for financial institutions before the Hong Kong Monetary Authority was set up in 1992. Standards for the securities industry and corporate governance still fell short of international benchmarks in 1999.<sup>101</sup>
- The health-care system was fragmented and inadequate until the creation of the Hospital Authority in 1990. The labour force was not protected by a statutory retirement protection scheme before December 2000.
- At the end of the century, whole-day schooling was available for less than half the children in primary education, with school premises still operating morning and afternoon shifts as they had done fifty years earlier. Almost 40 per cent of the teaching profession had no degrees, and 15 per cent were untrained.<sup>102</sup>

A reasonable conclusion is that neither the colonial administration nor their business partners in the political system had understood that economic growth by itself did not solve all Hong Kong's problems. Some could not be left to market forces but required direct intervention to overcome the legacy of so recent a Third World past. This state of affairs was made possible by a colonial culture that was 'anti-Western'. It viewed Hong Kong and its Chinese people as unlikely to benefit from Western knowledge and professional standards. This attitude was accompanied by a lack of confidence in the growth process and its ability to match population growth. This paper has indicated that such a pessimism reflected the intellectual influences of the previous century and was reinforced by the rejection of modern macroeconomics, its analytical tools and its statistical resources. Unlike other parts of the British Empire, this conservatism faced little challenge, either intellectually or politically.

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<sup>1</sup> Among many examples of academic applause: Christopher Howe, 'Growth, Public Policy and Hong Kong's Economic Relationship with China', *China Quarterly*, No. 95 (September 1983), p. 512; Leonard K. Cheng, 'Strategies for Rapid Economic Development: The Case of Hong Kong', *Contemporary Economic Policy*, Vol. 13. No. 1, 1995, p. 29.

<sup>2</sup> Frederick Ma, Secretary for Financial Services and the Treasury, *HH* (*HH* hereafter), 3 July 2002, p. 8208.

<sup>3</sup> He expressed these views in response to public indignation about the public utilities. The Governor, Sir Alexander Grantham, considered nationalising these companies. Acting Financial Secretary minute to Chief Secretary, 10 August 1948; Governor note, 11 August 1948; Deputy Financial Secretary minute to Financial Secretary, 23 January 1950. Hong Kong Public Records Office (HKRS hereafter) 163-1-634 'Public Utilities Companies Proposed control of the charges and dividends levied by ... '.

<sup>4</sup> *HH*, 8 October 1969, p. 85.

<sup>5</sup> Cowperthwaite, *HH*, 9 October 1970, pp. 112-5.

<sup>6</sup> Haddon-Cave, *HH*, 8 January 1975, p. 340.

<sup>7</sup> Note Pierre-Richard Agénor and Peter J Montiel, *Development Macroeconomics* (Princeton: Princeton University Press, 1999), 2<sup>nd</sup> edition, pp. 690-2.

<sup>8</sup> For a review of the evidence on this issue, see Leo F. Goodstadt, 'Dangerous Business Models: Bankers, Bureaucrats & Hong Kong's Economic Transformation, 1948-86', *HKIMR Working Paper No. 8/2006*, June 2006, pp. 4-8.

<sup>9</sup> As the Governor admitted. MacLehose, *HH*, 17 October 1973, p. 25. See also *First Report of the Companies Law Revision Committee. The Protection of Investors* (Hong Kong: Government Printer, 1971), pp. v-vii, 49; *Second Report of the Companies Law*

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*Revision Committee. Company Law* (Hong Kong: Government Printer, 1973); *Far Eastern Economic Review*: Leo Goodstadt, 'Companies Law. Bull in a China Shop', , 21 October 1972 and Philip Bowring, 'Hongkong: Limited Securities Bill', 8 October 1973.

<sup>10</sup> Securities Review Committee, *The Operation and Regulation of the Hong Kong Securities Industry* (Hong Kong: Government Printer, 1988), pp. 32, 230-1.

<sup>11</sup> Ian Scott, 'The Public Service in Transition: Sustaining Administrative Capacity and Political Neutrality', in Robert Ash *et al.* (eds), *Hong Kong in Transition. The Handover Years* (London: Macmillan Press Ltd, 2000), p. 160; Lau Chi Kuen, *Hong Kong's Colonial Legacy* (Hong Kong: Chinese University Press, 1997), p. 32-3; Ahmed Shaiqul Huque *et al.*, *The Civil Service in Hong Kong. Continuity and Change* (Hong Kong: Hong Kong University Press, 1998), 15-6..

<sup>12</sup> Alistair Todd (Hong Kong) letter W. S. Carter (Colonial Office), 1 May 1965; I. M. Lightbody (Hong Kong) letter A. St. J. Sugg (Colonial Office), 14 October 1965. CO1030/1664 'Labour Legislation – Hong Kong'.

<sup>13</sup> Details of this piece of racial discrimination can be found in HKRS163-1-1707 'Education. Educational provision for English-speaking children', in particular: M.6 Director of Education to Colonial Secretary, 8 February 1954; (8) Acting Director of Education memo to Colonial Secretary, 14 October 1954; M.83 Financial Secretary to Colonial Secretary, 10 March 1956; M.84 Colonial Secretary to Governor, 14 March 1956; M.85 Governor to Colonial Secretary, 16 March 1956; (33) Agenda Item for Finance Committee Meeting, 11 July 1956; M.210 note by Financial Secretary, 20 July 1962.

<sup>14</sup> *A Report by the Inter-Departmental Working Party to Consider Certain Aspects of*

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*Social Security* (Hong Kong: Government Printer, 1967).

<sup>15</sup> M. 7 Governor to Financial Secretary, 22 June 1967; M. 24 Financial Secretary to Governor; (11) ‘An Appreciation of the Report by the Inter-Departmental Working Party on Social Security’, 10 October 1967. HKRS163-9-486, ‘Social Security – Implications of Change in HK Status-Quo ...’.

<sup>16</sup> Alex Hang-keung Choi, ‘The Political Economy of Hong Kong’s Industrial Upgrading: A Lost Opportunity’, in Leung, Benjamin K. P. Leung, (ed.), *Hong Kong :Legacies and Prospects of Development* (Aldershot: Ashgate, 2003), p. 279; Stephen Chiu, *The Politics of Laissez-faire. Hong Kong’s Strategy of Industrialization in Historical Perspective* (Hong Kong: Hong Kong Institute of Asia-Pacific Studies, 1994), pp. 61-2; Tak-wing Ngo, ‘Industrial history and the artifice of *laissez-faire* colonialism’, in Tak-Wing Ngo (ed.), *Hong Kong’s History. State and society under colonial rule* (London: Routledge, 1999), pp. 130-3.

<sup>17</sup> John Lo, ‘The 1997 Issue and Hong Kong’s Industrial Policy and Industrial Development, with Special Reference to Electronics’, in Y. C. Jao *et al.* (eds), *Hong Kong and 1997. Strategies for the Future* (Hong Kong: Centre of Asian Studies, 1985), pp. 293, 297-8; Jeffrey Henderson, ‘The Political Economy of Technological Transformation in the Hong Kong Electronics Industry’, in Edward K. Y. Chen *et al.* (eds), *Industrial and Trade Development in Hong Kong* ( (Hong Kong: Centre of Asian Studies, 1991), p. 102; Suzanne Berger and Richard K. Lester (eds), *Made By Hong Kong* (Hong Kong: Oxford University Press, 1997), p. 57..

<sup>18</sup> Tony Fu-Lai Yu, *Entrepreneurship and Economic Development in Hong Kong* (London: Routledge, 1997), pp. 157-8.

<sup>19</sup> I. M. D. Little, *Collection and Recollections Economic Papers and their Provenance*

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(Oxford: Clarendon Press, 1999), pp. 197, 202, 228-9. 237-8; Deepak Lal and H. Myint, *The Political Economy of Poverty, Equity, and Growth: A Comparative Study* (New York: Oxford University Press, 1996), p. 98; Leonard K. Cheng, 'Strategies for Rapid Economic Development: The Case of Hong Kong', *Contemporary Economic Policy*, Vol. 13. No. 1, 1995, pp. 33-4. For a good overview of the debate on this issue, see Edward K. Y. Chen, 'The Total Factor Productivity debate: Determinants of Economic Growth in East Asia', *Asian-Pacific Economic Literature*, Vol. 11, No. 1, (May 1997).

<sup>20</sup> David Mole, 'Introduction', in David Mole (ed.), *Managing the New Hong Kong Economy* (Hong Kong: Oxford University Press, 1996), p. 4.

<sup>21</sup> Robert Heilbroner, *Twenty-First Century Capitalism* (London: UCL Press, 1993), p. 86.

<sup>22</sup> David C. Chaney and David B. L. Podmore, *Young Adults in Hong Kong: Attitudes in a Modernizing Society* (Hong Kong: Centre of Asian Studies, 1973), p. 186.

<sup>23</sup> Leo F. Goodstadt, 'Government without Statistics: Policy-making in Hong Kong 1925-85, with special reference to Economic and Financial Management', *HKIMR Working Paper* No. 6/2006, April 2006, pp. 2-3.

<sup>24</sup> George Hicks, 'Hong Kong on the Eve of Communist Rule', in Hungdah Chiu *et al.* (eds), *The Future of Hong Kong. Toward 1997 and Beyond* (New York: Quorum Books, 1987), p. 46.

<sup>25</sup> David R. Meyer, *Hong Kong as a Global Metropolis* (Cambridge: Cambridge University Press, 2000), p. 148.

<sup>26</sup> Lau, *Society and Politics in Hong Kong*, p. 53.

<sup>27</sup> This unstructured approach to policy has been well described by an official who had served in other colonies. Trevor Clark, *Good Second Class* (Stanhope: The Memoir

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Club, 2004), p. 156.

<sup>28</sup> Denis Bray, 'Recollections of a Cadet Officer Class II', in Elizabeth Sinn (ed.), *Hong Kong, British Crown Colony Revisited* (Hong Kong: Centre of Asian Studies, 2001), pp. 17-8.

<sup>29</sup> Roger Bristow, *Hong Kong's New Towns. A Selective Review* (Hong Kong: Oxford University Press, 1989), p.307.

<sup>30</sup> Sir Philip Haddon-Cave, *The 1980-81 Budget: Speech by the Financial Secretary, concluding the Debate... 1980* (Hong Kong: Government Printer, 1980), pp. 9-10.

<sup>31</sup> Chris D. Godwin, Principal Assistant Secretary, Education and Manpower Branch, 'Pilot Study One: The School Education Programme: Redefining the Relationship between Policy Branch and department', in Jane C. Y. Lee and Anthony B. L. Cheung (eds), *Public Sector Reform in Hong Kong. Key Concepts, Progress-to-Date and Future Directions* (Hong Kong: Chinese University Press, 1995), pp. 95, 96-7.

<sup>32</sup> Marriage was an obvious instance of the reluctance to interfere with what were regarded as China's traditions.

<sup>33</sup> 1) Commissioner of Inland Revenue (E. W. Pudney) memo to Financial Secretary, 8 January 1947, p. 1. HKRS41-1-2769(1) 'Inland Revenue Ordinance 1. General question of imposing etc... '.

<sup>34</sup> (35) Governor letter to Secretary of State for the Colonies 17 May 1947. HKRS41-1-2769(1).

<sup>35</sup> *Hong Kong Annual Departmental Report by the Commissioner of Labour for the Financial Year 1952-3* (Hong Kong: Government Printer, n.d.), p. 13

<sup>36</sup> *Hong Kong Annual Departmental Report by the Commissioner of Labour for the Financial Year 1951-2* (Hong Kong: Government Printer, n.d.), p. 22.

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<sup>37</sup> 55) Memorandum by the Colonial Treasurer 25 August 1936, p. 2. HKRS 170-1-307 'Banking Legislation'.

<sup>38</sup> Financial Secretary letter to Governor of the Central Bank of China, 19 February 1948. HKRS 163-1-440. Simultaneously, a leading business weekly reported that 'many local [Chinese-owned] banks have, for reasons of respectability no doubt, organised their former shops into limited liability companies and ... have become proper bank companies'. 'The Position & Business of Chinese Native Banks', *Fare Eastern Economic Review*, 18 February 1948.

<sup>39</sup> There is virtually no reliable data on GDP, industrial production and even population before the 1960s. Collection of comprehensive data about banking started in 1964 and about other deposit-taking companies at the end of the 1970s. For details of the statistical deficiencies of Hong Kong, see Leo F. Goodstadt, 'Government without Statistics: Policy-making in Hong Kong 1925-85, with special reference to Economic and Financial Management',.

<sup>40</sup> Sir Robert Black, Governor, *HH*, 26 February 1964, p. 36.

<sup>41</sup> The private sector was openly complaining about a severe labour shortage in 1960. (H. D. M. Barton (Jardine Matheson), *HH*, 16 March 1960, p. 94) The government's forebodings about employment levels had been disproved by the 1961 Census. (K. M. A. Barnett, *Hong Kong. Report on the 1961 Census* (Hong Kong: Government Printer, n.d.), Vol. III, pp. CXVI, 2, 33). It did not help that over 20 per cent of the colony's factories were unknown to the Labour Department even though they were licensed for export purposes. ((209) Minute to AD, 12 July 1961. HKRS270-1-2-I 'Industrial Development Flatted Factories Provision of...'})

<sup>42</sup> Cornelis J. A. Jansen and Mark Cherniavsky, 'Current Economic Situation and

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Prospects of Hong Kong' (Asia Department IBRD, 9 May 1967, mimeo.), p. ii.

<sup>43</sup> Christopher Howe, 'Growth, Public Policy and Hong Kong's Economic Relationship with China', *China Quarterly*, No. 95 (September 1983), p. 512.

<sup>44</sup> Cowperthwaite, *HH*, 28 February 1962, p. 58, 26 February 1964, p. 52; 25 February 1965 p. 75; 24 February 1966, pp. 72-3; 24 February 1971, p. 417.

<sup>45</sup> Cowperthwaite, *HH*, 26 February 1964, p. 51; 25 February 1965, p. 66, 24 February 1966, pp. 69, 73; 1 March 1967, p. 90; 28 February 1968, pp. 58, 64, 66.

<sup>46</sup> The absurdity of this pronouncement was highlighted by Cowperthwaite's admission: 'I myself would not find it easy to say with precision what lowering of standards is necessary or justifiable'. *HH*, 28 February 1962, p. 58.

<sup>47</sup> Sir John Bremridge, Financial Secretary, *HH*, 29 February 1984, p. 592.

<sup>48</sup> Benjamin Higgins, 'Economic Development of Underdeveloped Areas: Past and Present', *Land Economics*, Vol. 31, No. 3 (August 1955), pp. 189-90.

<sup>49</sup> For an IMF analysis of this issue, see E. M. Bernstein, 'General Problems of Financing Development Programs' *Journal of Finance*, Vol. 12, No. 2 (May 1957), pp. 168, 172.

<sup>50</sup> See the comparative data in Nicholas F. R. Crafts, 'The First Industrial Revolution: A Guided Tour for Growth Economists', *American Economic Review*, Vol. 86, No. 2 (May 1996), p. 198.

<sup>51</sup> Leonard K. Cheng, "Strategies for Rapid Economic Development: The Case of Hong Kong,". *Contemporary Economic Policy*, Vol. 13. No. 1, 1995, p. 30.

<sup>52</sup> On medical services, see Clarke, *HH*, 27 March, 1957, p. 114; on education, see Cowperthwaite, *HH*, 28 February 1962, p. 57.

<sup>53</sup> Lennox A. Mills, *British Rule in Eastern Asia. A Study of Contemporary Government*



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*and Economic Development in British Malaya and Hong Kong* (London: Oxford University Press, 1942), p. 1; Frank Welsh, *A History of Hong Kong* (London: Harper-Collins, 1993), pp. 453, 455-9, 464-5, 510.

<sup>54</sup> Note the comment on monetary policy in the Indian Empire: ‘There is friction between the India Office [in London] which is rather too much interested in the exchange banks and in the London money market, and the Government in India which is more keenly aware of the needs and temper of the people in India’. S. E. Harris, *Monetary Problems of the British Empire* (New York: Macmillan Company, 1931) p. 455.

<sup>55</sup> Mill’s influence is often under-rated. T. W. Hutchison, *On Revolutions and Progress in Economic Knowledge* (Cambridge: Cambridge University Press, 1978), p. 61.

<sup>56</sup> Anthony Latter, ‘The Currency Board Approach to Monetary Policy – from Africa to Argentina and Estonia, via Hong Kong’, in *Proceedings of the Seminar on Monetary Management organized by the Hong Kong Monetary Authority on 18-19 October 1993* (Hong Kong: Hong Kong Monetary Authority, n.d.), p. 27.

<sup>57</sup> Ida Greaves, ‘The Character of British Colonial Trade’, *Journal of Political Economy*, Vol. 62, No. 1 (February 1954), pp. 3, 4-6. As she acknowledged, this analysis was derived from John Stuart Mill’s theory of international trade.

<sup>58</sup> Gerard L. M. Clauson, ‘Some Uses of Statistics in Colonial Administration’, *Journal of the Royal African Society*, Vol. 36, No. 145 (October 1937), pp. 10-2.

<sup>59</sup> H. W. Singer, ‘The Distribution of Gains between Investing and Borrowing Countries’ *American Economic Review*, Vol. 40, No. 2 (May, 1950), p. 475

<sup>60</sup> Cowperthwaite makes a specific reference to Dr Ida Greaves, cited in f.n. 57, in defending Hong Kong’s autonomy against the Colonial Office. (79) J. J.

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Cowperthwaite letter to W. F. Searle (Chief Statistician, Colonial Office), 8 June 1955.

HKRS163-9-88 'Trade. Balance of Payment Statistics. Policy regarding preparation of ... '.

<sup>61</sup> Cowperthwaite, Acting Director of Supplies, Trade and Industry minute to Colonial Secretary, 8 September 1947. HKRS163-5-2 'Colonial Production Colonial Development Corporation & International Bank Loans'.

<sup>62</sup> *ibid.*

<sup>63</sup> David W. Clayton, 'Industrialization and institutional change in Hong Kong 1842-1960', in Heita Kawakatsu and A. J. H. Latham (eds), *Asia Pacific Dynamism, 1550-2000* (London: Routledge, 2000) p. 161.

<sup>64</sup> T (3) Officer Administering the Government letter to Secretary of State for the Colonies, 23 September 1952. HKRS163-3-269 'Investment Guarantees by the United States Government'.

<sup>65</sup> The colonial administration also worried about having to become more transparent, for example by compiling comprehensive statistics. (1) Acting Financial Secretary letter to D. J. Kirkness (Colonial Office) 14 October 1963, pp. 7-8. HKRS160-3-25 'Report on the Financial Situation by the Acting Financial Secretary'.

<sup>66</sup> Acting Financial Secretary minute to Colonial Secretary, 25 April 1957. HKRS163-1-634 'Public Utilities Companies Proposed control of the charges and dividends levied by...'

<sup>67</sup> Clauson, 'Some Uses of Statistics in Colonial Administration', p. 14.

<sup>68</sup> Ida Greaves, 'Dollar Pooling in the Sterling Area: Comment', *American Economic Review*, Vol. 45, No. 4 (September 1955), p. 656.

<sup>69</sup> On the historical background, see War Office secret telegram to Commander in Chief

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Hong Kong, no. 522263 F5, 22 March 1946. HKRS 169-2-26 'Currency and Banking'. Commander in Chief telegram to War Office, 19 January 1946; War Office/Colonial Office telegram to Commander in Chief Hong Kong, 16 January 1946. HKRS169-2-53 'Rehabilitation of Business'; Officer Administering the Government telegram to Secretary of State for the Colonies, no. 958, 6 June 1947; S Caine (Colonial Office) telegram to D. M. MacDougall (Hong Kong), no. 982, 21 June 1947. HKRS163-1-442 'Import and Exchange Control in Hong Kong Proposed visit of a H.K. Govt. officer to the U.K. in connection with...'

<sup>70</sup> DCI minute to Commissioner of Police, 7 July 1949; DFS minute to Commissioner of Police, 22 July 1949. HKRS41-1-4897 'Defence (Finance) Regulations 1940. Authorisation of Police Officers ... '.

<sup>71</sup> Frank H. H. King, *The Hong Kong Bank in the Period of Development and Nationalism, 1941-1984. From Regional Bank to Multinational Group* (Cambridge: Cambridge University Press, 1991), pp. 345-6.

<sup>72</sup> The plea was dealt with quite casually. The Director was left free to see if he could induce the airline to change its purchase plans. It did not, and exchange control authorisation was granted without any fuss. (97) Director of Civil Aviation memo to Colonial Secretary, 'Cathay Pacific Airways – Purchase of American Aircraft', 13 August 1957; (98) DFS memo to Director of Civil Aviation, 17 August 1957. HKRS163-9-141 'Exchange Control – Individual Problems Arising from Applications of Policy on ... in Hong Kong'. Cathay Pacific itself used London demands to buy British as a bargaining counter to obtain access to routes under United Kingdom control. See Gavin Young, *Beyond Lion Rock. The Story of Cathay Pacific Airways* (London: Hutchison, 1988), pp. 203-5, 208, 216.

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<sup>73</sup> Haddon-Cave, *HH*, 27 March 1974, p. 726

<sup>74</sup> *Hong Kong Report for the Year 1969* (Hong Kong: Government Press, 1970), p. 50.

<sup>75</sup> C. P. Haddon-Cave, Financial Secretary, *HH*, 15 March 1978 p. 623.

<sup>76</sup> Haddon-Cave, *HH*, 3 April 1975, p. 691, f.n. 4.

<sup>77</sup> There was a single use of the term by an official in a historical reference (Cowperthwaite, *HH*, 18 December 1963, p. 303) and a brief comment by an elected legislator in the dying days of British rule. (Christine Loh, *HH*, 27 March 1996, p. 153)

<sup>78</sup> ‘3. In countries where economic and financial policies may result in internal and external price levels getting out of line and setting up inflationary tendencies (and unfortunately such countries are in the overwhelming majority today) it is very necessary to keep an eye on the balance of payments But our economy is almost wholly external (our foreign trade is probably twice our national income) and our balance of payments is self-regulating either through the free exchange market or through our currency mechanism (whether one is a disciple of Prof. [Arthur] Lewis or Dr.[Ida] Greaves) and we have no occasion to intervene’. (79) Cowperthwaite letter to W. F. Searle, Colonial Office, 8 June 1955 HKRS163-9-88 ‘Trade. Balance of Payment Statistics. Policy regarding preparation of...’

<sup>79</sup> The Financial Secretary recited a long and ominous list of threats to the colony’s economic viability. Clarke, *HH*, 2 March, 1955, pp. 60-2

<sup>80</sup> Haddon-Cave, *HH*, 14 November 1974, pp. 217-8.

<sup>81</sup> He claimed that the financial burden of the new airport ‘could result in halving the low cost housing programme’, although he had admitted in the previous year that, in managing the public sector, ‘the true shortage is of resources including people – and not

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of money'. *HH*, 23 February 1983, p. 520 and 24 February 1982, p. 428.

<sup>82</sup> On Mill's views on the role of colonies in this context, see his *Principles of Political Economy with some of their Applications to Social Philosophy* (London: Longman, Green Reader, and Dyer, 1878), 8<sup>th</sup> edition, Vol. 2, pp. 597-603.

<sup>83</sup> J. R. Hicks, 'Growth and Anti-Growth', *Oxford Economic Papers*, Vol. 18, No. 3 (November 1966), pp. 261, 266-7.

<sup>84</sup> There was a Malthusian ring to the title to one official committee. But its proceedings were mainly positive about coping with the influx. See HKRS163-1-507 'Excess Population Committee Pre-war correspondence re ...'

<sup>85</sup> Leo F. Goodstadt 'The Rise and Fall of Social, Economic and Political Reforms in Hong Kong, 1930-1955', *Journal of the Royal Asiatic Society Hong Kong Branch*, Vol. 44 (2004), pp. 62-3.

<sup>86</sup> The document defended, for example, the harsh conditions deliberately imposed on the squatter population. Hong Kong Government, *A Problem of People* (Hong Kong: Government Printer, n.d.), pp. 15-7.

<sup>87</sup> To Fiji, for example. Sir Anthony Eden, *Full Circle* (London: Cassell, 1960), pp. 382-3.

<sup>88</sup> W. G. Holland minute to Ashton 29 May 1956. London Public Records Office (CO hereafter) 1030/392 'Financial Devolution Hong Kong'; P. Selwyn minute to Sir William Gorell Barnes, 6 July 1961.CO1030/1300 'The Future of Hong Kong'.

<sup>89</sup> Data are from Census and Statistics Department, *2004 Gross Domestic Product* (Hong Kong: Government of the HKSAR, 2005), p. 20. Incomes and poverty were a different matter. Over much of this period, the distribution of incomes had become increasingly unequal despite a chronic shortage of labour. For a discussion of this issue,

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see Hon-Kwong Lui, *Income Inequality and Economic Development* (Hong Kong : City University of Hong Kong Press, 1997).

<sup>90</sup> Not only would the state have to finance and manage the expansion of the social infrastructure, governments would also have to adopt tougher tax régimes to cut down on non-productive private sector and personal expenditure. See John H. Adler, 'The Fiscal and Monetary Implementation of Development Programs', *American Economic Review*, Vol. 42, No. 2 (May, 1952), p. 593.

<sup>91</sup> Cowperthwaite, *HH*, 28 February 1962, p. 57; 25 February 1970, p. 368; 24 February 1971, p. 419.

<sup>92</sup> (60) Extract from the draft minutes of the Industrial Sites Co-ordination Committee dates 14 June 1963. HKRS270-1-2-II 'Industrial Development Provision of Flatted Factories'.

<sup>93</sup> Sir Murray MacLehose, Governor, *HH*, 17 October 1973, p. 26. The government also pointed to its strict control of the rice trade to ensure adequate supplies. D. H. Jordan, Director of Commerce and Industry, *HH*, 27 March 1974, pp. 710-21.

<sup>94</sup> Haddon-Cave, *HH*, 7 April 1976, p. 802. Note his careful wording on social responsibility in a later statement: 'Public policies have to reflect a sense of social responsibility towards those who for one reason or another, are unable to take advantage of the proffered opportunities'. *Government Information Services*, 1 February 1982

<sup>95</sup> A useful list of examples of this 'selective' government is provided by Irene Eng , 'Flexible Production in Late Industrialization: The Case of Hong Kong', *Economic Geography*, Vol. 73, No. 1 (January 1997), 26-43.

<sup>96</sup> K. G. Ashton minute to W. G. Hlland/Johnston, 10 July 1956. CO1030/392

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‘Financial Devolution Hong Kong’.

<sup>97</sup> Despatch from the Secretary of State for the Colonies to Colonial Governments, *Colonial Development and Welfare ...* (Cmd 6713/1945), pp. 3-5; HKRS41-1-6032, ‘Colonial Industrial Development – Legislation to encourage ...’.

<sup>98</sup> Albert O. Hirschman, ‘Economic Policy in Underdeveloped Countries’, *Economic Development and Cultural Change*, Vol. 5, No. 4 (July 1957), p. 363.

<sup>99</sup> Cowperthwaite, *HH*, 26 February 1964, p. 50.

<sup>100</sup> The government’s response was that international opinion no longer tolerated the employment of under-age workers who should be in school. Francis Tien Yuan-hao, *HH*, 30 March 1978, p. 696; Kenneth Topley, Director of Education, *ibid.*, 12 April 1978 p. 737.

<sup>101</sup> *A Policy Paper on Securities and Futures Markets Reform* (Hong Kong: HKSARG, 1999), pp. 16-9.

<sup>102</sup> Fanny Law, Secretary for Education and Manpower, *Government Information Services*, 9 November 2001.