

Draft for Discussion

**Government without Statistics:
Policy-making in Hong Kong 1925-75, with special reference to
Financial Markets**

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Until the 1970s, Hong Kong's Government collected as few statistics as possible, a policy only partially explained by its commitment to *laissez faire*. Statistics were seen as threatening its freedom from London's control and to its ability to limit political debate locally. Using unpublished material from the Hong Kong Public Records Office, this paper reviews statistical issues of major importance in Hong Kong's transition to an industrial economy and its emergence as a financial centre. It demonstrates how the quality of statistics affected the management of banking crises and identifies the wider costs of the shortage of comprehensive statistics.

Key words: *laissez faire*, census, balance of payments, national income, labour, housing, banking, regulation, Hong Kong, China, United Kingdom

Hong Kong's economic performance in the second half of the twentieth century is among the most impressive in modern economic history.¹ Yet its record has aroused relatively little attention among economists. Its success attracted some additional interest when the kind of economic liberalism consistently practised by Hong Kong came into back fashion late in the twentieth century, but mainly as a marginal case.² It has also featured in the debate over total factor productivity and whether 'miracle' growth in the Asian was the result of increased investment and cheap labour or genuine improvements in efficiency and productivity.³ On the whole, however, development economists have not hailed Hong Kong as a useful model of economic growth.⁴

For the development economist, the enormously successful economy of Hong Kong has so little to offer because the Government steadfastly set its face against the production of adequate statistics.⁵

In order to evaluate the speed and magnitude of post-war industrialization, one would normally turn to industrial production statistics, but in the case of Hong Kong this is impossible, for none exist. There is, in fact, a scarcity of published economic statistics of every kind, and a total absence of national income accounts. This situation is the direct result of the Government's anachronistic economic policy, which attaches little value to comprehensive economic and social statistics.

Did this statistical void matter in practice? Since Hong Kong can boast a better growth record in the second half of the last century than any other Asian economy except Japan and Singapore, it seems reasonable to conclude that both the Government and the business community had whatever information was necessary for efficient public administration and private investment.⁶

This paper challenges this assumption. It examines whether the operations of the 'invisible hand' were entirely benign in an economy deliberately deprived of most of the data regarded elsewhere as essential for good government. It identifies areas where statistical ignorance handicapped policy-makers, and it assesses the consequences of policy decisions based on partial information, particularly in dealing with financial markets.

¹ Gordon Redding, 'Culture and Business in Hong Kong', in Wang Gangway and Wong Siu Lun (eds), *Dynamic Hong Kong: Business & Culture* (Hong Kong: Centre of Asian Studies, 1997), p. 102.

² This marginal status seems very evident from World Bank, *The East Asian Miracle. Economic Growth and Public Policy* (New York: Oxford University Press, 1993).

³ See Alwyn Young, 'A Tale of Two Cities: Factor Accumulation and Technical Change in Hong Kong and Singapore', in O. M. Blanchard and S. Fischer (eds), *NBER Macroeconomics Annual 11992* (Cambridge: MIT Press, 1992) and 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), pp. 18-38.

⁴ George Hicks, 'The Four Little Dragons: An Enthusiast's Reading Guide', *Asian-Pacific Economic Literature*, Vol. 3, No. 2 (September 1989), pp. 36-7.

⁵ James Riedel, *The Industrialization of Hong Kong* (Tübingen: J. C. B. Mohr (Paul Siebuck), 1974), p. 7.

⁶ This benign view of the colonial administration's record was accepted by one of the earliest critics of the absence of statistical information. Nicholas C. Owen, 'Economic Policy, in Keith Hopkins (ed.), *Hong Kong: The Industrial Colony. A Political, Social and Economic Survey* (Hong Kong: Oxford University Press, 1971), pp. 141-2, 179, 183.

The Statistical Environment

By comparison with the rest of the Asian region, Hong Kong was a statistical wasteland until the 1970s. Virtually every other government was releasing national income accounts and balance of payments estimates by 1950, for example.⁷ The starting date for Hong Kong's official GDP estimates is 1961, but publication of this series did not start until 1973.⁸ The first official balance of payments statistics were not released until after the end of colonial rule in 1997.

The absence of basic data about economic and social conditions cannot be attributed entirely to the commitment to *laissez faire*. Officials were ready to claim that Hong Kong's free port and open economy prevented them from gathering the sort of data taken for granted elsewhere. But these were excuses to mask a stubborn aversion towards statistics encouraged both by the prevailing bureaucratic culture and by political convenience.

Cultural Hostility

Throughout the period under review, Hong Kong had a government in which internal policies were not written down as a coherent guide to decision-making.⁹ Forward planning and strategic management were not much in evidence.¹⁰ This was administration without policies, and it required few statistics.

The Government almost succeeded in abolishing all significant economic data about Hong Kong in 1925, when the collection of trade statistics was abandoned. Manufacturing was still very limited, and the economy depended on the port and its throughput of international trade originating on the Chinese Mainland. Thus, the trade figures were an essential measure of Hong Kong's performance. Nevertheless, their collection ceased until 1930, despite protests from business leaders.¹¹ The Government made its case against compiling trade figures in terms to be repeated in the decades ahead.

- Their costs were 'enormous'.

⁷ Of 14 Asian economies reviewed, only Nepal's GDP series starts later than Hong Kong (1962). South Korea's series begins in 1953 (because of the war) and Singapore's in 1960. Balance of payments estimates show a similar pattern: South Korea's series begins in 1951 and Malaysia's in 1956 (but covered Singapore until 1963); while Bangladesh's series starts in 1973. B. R. Mitchell, *International Historical Statistics Africa, Asia & Oceania 1750-1993* (London: Macmillan Reference Ltd, 1998, 3rd edition), pp. 1028-38, 1091-1107.

⁸ The initial publication covered only 1966-71. C. P. Haddon-Cave, Financial Secretary *Hong Kong Hansard*, 28 February 1973, pp. 457-8.

⁹ 'The files never stated a policy outright'. Trevor Clark, *Good Second Class* (Stanhope: The Memoir Club, 2004), p. 156.

¹⁰ There were, of course, public statements setting out government intentions in different fields. But these were limited in scope, detail and number in the period under review. On medical services as an example, see Catherine Jones, *Promoting Prosperity The Hong Kong Way of Social Policy* (Hong Kong: Chinese University Press, 1990), pp. 177-8.

¹¹ *Hong Kong Hansard*, 8 March 1926, p. 12; P. H. Holyoak, *Hong Kong Hansard*, 18 March 1926, p. 18; W. T. Southorn, Colonial Secretary, *Hong Kong Hansard*, 5 September 1929, p. 163.

- They were of no interest to the business community.
- Their accuracy could not be guaranteed, particularly in a free port.¹²

Much the same excuses were advanced by officials in the 1950s. By this date, official policy was ‘to reduce expenditure on the compilation and dissemination of statistics to the barest minimum’.¹³ But the reasons for not collecting information in a variety of fields, ranging from the labour market to the balance of payments were not just the costs. Chinese businessmen were unwilling to supply information, it was claimed.¹⁴ Accurate statistics could not be collected in a ‘free economy’.¹⁵ These excuses were to be recycled again in 1970 to counter calls for national income statistics.¹⁶

The bureaucracy’s hostility towards statistics was rarely challenged. One striking exception was a reforming governor, Sir Geoffrey Northcote.¹⁷ In 1938, he denounced the chronic shortage of the data essential for good government.¹⁸

In many respects the statistical information at the disposal of this Government is deficient or unscientifically arranged; there is a serious lack of machinery for the co-ordination of such statistics as exist, and in nearly every case these are crude. In such circumstances it might with some truth be alleged that figures are given to us to conceal the facts. The first-rate importance of well-digested and well-correlated statistics to a Colony, which is so largely dependent upon commerce and has, for example, such grave population problems as Hong Kong, is indisputable.

Immediately after World War II, the colonial administration had good reason to heed this warning. Accurate economic data became important to the officials involved in reconstruction of the war-ravaged economy as they set development priorities and allocated scarce resources.¹⁹ They had little enthusiasm for this role, however, and they were impatient to surrender responsibility for economic management.²⁰ Statistics soon lost their appeal, and within a decade, the government’s statistician felt driven to make much the same complaint as Northcote had twenty years earlier.²¹

There are still traces of the old attitude that it does n’t matter what the population actually is – we are doing what we can and the size of the population cannot alter that. This is a most dangerous argument that would lead both to misdirection and waste of resources. The statistical aspect of a problem must be known if efficient measures are to be taken to deal

¹² Sir Edward Stubbs, Governor, *Hong Kong Hansard*, 22 October 1925, p. 103; E. R. Hallifax, Colonial Secretary, *Hong Kong Hansard*, 18 March 1926, p. 18.

¹³ Commissioner of Labour minute to Colonial Secretary, 24 October 1952, HKRS22-1-19 ‘Labour Statistics – Policy’.

¹⁴ Hong Kong Annual Departmental Report by the Commissioner of Labour for the Financial Year 1952-3 (Hong Kong: Government Printer, n.d.), p. 16.

¹⁵ Director of Commerce and Industry minute to Financial Secretary, 6 November 1950. Hong Kong Public Records Office (HKRS hereafter) HKRS163-9-88 ‘Trade. Balance of Payment Statistics. Policy regarding preparation of...’.

¹⁶ Sir John Cowperthwaite, *Financial Secretary, Hong Kong Hansard*, 25 March 1970, pp. 495, 496

¹⁷ Among his innovations were major reforms to the provision of social services and to their funding through direct taxation.

¹⁸ Sir Geoffrey Northcote, Governor, *Hong Kong Hansard*, 13 October 1938, p. 117.

¹⁹ A striking example was (18) Acting Director of Supplies, Trade and Industry (Cowperthwaite) memos to Statistical Officer, 6 March and 14 June 1948. HKRS22-1-88 ‘Chinese Owned Industrial Capital etc’.

²⁰ e.g., C. G. S. Follows, Financial Secretary *Hong Kong Hansard*, 31 March 1949, pp. 135-6.

²¹ (10) Statistician minute to Director of Commerce and Industry, 15 December 1958. HKRS22-1-96 ‘Population Census 1961’.

with it.

This 'cultural' hostility towards statistics was extremely widespread throughout the period under review, affecting governors and most senior officials. Personality was also a factor. One individual stands out as determined to minimise the compilation and publication of official statistics in the post-war world. This was the redoubtable J. J. (later Sir John) Cowperthwaite, who was Financial Secretary from 1961 to 1971. He played a major and usually decisive role in all the major disputes over statistical policy from 1948 onwards.

The British Colonial Office had the constitutional power to force a change in this culture. By 1950, British colonies were being encouraged by London to take a broader view of the contribution which modern statistics could make to their progress.²² The starting point had to be a population census. The other priorities were:

- external trade, including value and volume indices for both exports and imports, to be produced on a timely basis;
- retail or consumer price indices based, where possible, on budgetary surveys;
- industrial production; and
- gross capital formation.

This programme caused considerable alarm in Hong Kong. The Government Statistician was blamed for London's statistical activism. He had given offence to his colonial colleagues in 1947 by straying beyond his statistical duties to proffer advice on social and economic policy.²³ In 1950, he was viewed as London's 'agent'. His opinions were distorted; his professional performance denigrated; and his position made impossible.²⁴ Hong Kong's anti-statistics culture triumphed, and, apart from external trade statistics, Hong Kong did not meet any of London's goals before 1961.

Statistics for Survival

Within the colonial administration, one group of officials grasped the importance of good data. When the United States imposed its initial economic blockade on China during the Korean War, shipments to Hong Kong were also banned. The colony's Commerce and Industry Department found itself handicapped by the defective trade figures when seeking to negotiate exemptions for Hong Kong products with Washington.²⁵ Reliable, timely and comprehensive figures proved vital to successful

²² Colonial Office, *First Conference of Colonial Government Statisticians, 1950* (London: HMSO, 1951, Colonial No. 267), pp. 10-4, 16.

²³ He proposed the introduction of food subsidies along lines similar to the United Kingdom and Malaya to be financed by Cowperthwaite's department. (15) Statistical Officer memo to Colonial Secretary, 21 August 1947. HKRS22-1-78, pp. 3-5. 'Report S.O. 3/47 on White Collar Workers (January-March 1947)'.

²⁴ DCS minute to Colonial Secretary 26 May 1950; AS8 minute to DCS, 22 September 1950; (18) Government Statistician letter to Colonial Secretary, 3 May 1950; Acting Government Statistician memo to Colonial Secretary, 4 April 1951. HKRS41-1-4969 'Conferences - The Conference of Colonial Government Statisticians Convened by the Secretary of State for the Colonies at the Colonial Office during March, 1950. Correspondence re ...'.

²⁵ Hong Kong Annual Departmental Report by the Director of Commerce and Industry for the Financial Year 1951-2 (Hong Kong: Government Printer, n.d.), pp. 2, 3.

international negotiations over textile quotas and other restrictions in the years that followed in order to counter allegations of unfair competition.²⁶

It helped that in the late 1950s and early 1960s, the Department's director believed *laissez faire* was outdated. He backed the expansion of his professional statistician's agenda from trade figures into industrial production statistics, retail and consumer price information and the first household expenditure survey.²⁷

Statistics and Policy-making

The refusal to recognise the contribution of good statistics to policy-making involved two assumptions about the policy-making process:

- good policies could be made just as well with partial information; and
- it was pointless to quantify problems when resources were scarce.

In addition, officials feared that if potential critics, whether ministers and officials in London or local pressure groups and the media, had access to accurate statistics, they would be able to put forward other and better policies. The credibility of the colonial administration would then be at risk.

Population Puzzles

London's blueprint for colonial statistics outlined in 1950 had declared that 'administrations not fully aware of the changes in their populations, both by natural growth and by immigration, must regard this as a fundamental gap in their knowledge'.²⁸ Hong Kong officials at this date had only the sketchiest notion of how many inhabitants were in their charge. In the acute food shortages after World War II, Hong Kong's procurement and distribution of essential supplies had been made more difficult by the lack of accurate estimates of the numbers to be fed.²⁹ Then as the Chinese Civil War reached its climax in 1949, colonial officials planning for security and civil defence demanded accurate figures on the number of inhabitants, which were not available.³⁰

A population census would have solved these problems, and formalities for conducting the first census since 1931 had been approved in March 1948. The Government decided, however, that it should issue everyone with identity cards first

²⁶ See, for example, M. 97 AI to DDAI, 27 May 1969; M. 100 IID to TID(2), 19 September 1969 HKRS1056-1-194 'Industrial Survey -Policy'.

²⁷ This director was H. A. Angus. For his economic activism, see Director Commerce and Industry memo to Financial Secretary 9 September 1958; Commissioner of Labour letter to Director of Commerce and Industry, 9 September 1958. HKRS270-5-44, 'Commercial and Industrial Development - Major Policy'.

²⁸ Colonial Office, First Conference of Colonial Government Statisticians, 1950, p. 16.

²⁹ M. 13 Director of Supplies, Trade and Industry to Colonial Secretary, 29 January 1947; M. 20 Director of Medical Services to Colonial Secretary, 17 February 1947; M. 21 Director of Supplies, Trade and Industry to Colonial Secretary, 24 February 1947. HKRS170-2-1 'Census Estimate of Population'.

³⁰ HKRS259-6-1 'Report on the Population of the Colony, Mid-Year 1949', pp. 1, 2.

and postponed the exercise until the World Census in 1950.³¹ This deadline was also missed, and the first post-war census was not conducted until 1961. The public was told that this delay had been made necessary because of ‘the impossibility of obtaining a completely reliable assessment of immigration’.³² This excuse was not convincing since, by now, the Government had in place systems not just for registering the general population but the street sleepers, squatters and others with no ‘permanent’ abodes. Indeed, estimation of the total population soon improved in accuracy despite the complaints about tracking illegal immigration from the Mainland.³³

The real motive for the delay was political convenience.³⁴ A census would have produced demographic information that would have focused uncomfortable attention on the community’s social and economic problems. The Colonial Secretary and future Governor, R. B. (later Sir Robert) Black, declared bluntly that a census would not assist policy-making.

...we are well aware that we are not able to meet our known commitments in educational, health and social welfare services. We can not afford to do more than are doing, although it is not enough. When we have satisfied ourselves that we are nearer to achieving our known targets would be the time to have a census to see what additional commitments there may be.

Black’s comment settled census policy for the rest of the decade despite complaints from government departments facing demands to develop housing, education, health and urban services.

The damage done to policy-making by the failure to take a census before 1961 became very clear when its results were published. For example, its data discredited two of the colonial administration’s key assumptions about the people of Hong Kong.

- Officials had clung to a long-standing conviction that, somehow, the Chinese population was in transit and that the refugees would not integrate into the rest of the community. The colonial administration, therefore, considered that the immigrants were not part of Hong Kong society and that they had no claim on its resources.³⁵ The 1961 census data showed that integration had been rapid and almost total.³⁶

³¹ M.1 to M.5 14 October-8 November 1947; M. 23 23 March 1948; M. 52 Colonial Secretary to Governor, 23 December 1948. HKRS170-2-1.

³² *Hong Kong Annual Departmental Report by the Commissioner of Labour... for the Financial Year 1953-54* (Hong Kong: Government Printer, n.d.), p. 70.

³³ By 1961, the difference between the estimated population and the Census enumeration was only 3.8 per cent. *Hong Kong Report for the Year 1962* (Hong Kong: Government Press, 1963), pp. 35-6; *Hong Kong Report for the Year 1960* (Hong Kong: Government Press, 1961), p. 37.

³⁴ The account that follows is based on M. 9. DCS to Colonial Secretary, 8 December 1954; M. 4. Colonial Secretary to Governor, 27 February 1954; (10) Statistician minute to Director of Commerce and Industry, 15 December 1958; (11) M. 71. Director of Commerce and Industry to DFS(E), 15 December 1958. HKRS22-1-96.

³⁵ Note, for example, the attitude to squatters made homeless by a catastrophic fire. (21) Governor to Secretary of State, 29 December 1953. HKRS163-1-1578 ‘Shek Kip Mei Fire’. In 1957, the British Prime Minister intervened to halt a bid to ship immigrants from Hong Kong to Fiji. Sir Anthony Eden, *Full Circle* (London: Cassell, 1960), pp. 382-3.

³⁶ With no significant link between length of residence and career prospects, for example, where educational standards were the decisive factor. K. M. A. Barnett, *Hong Kong. Report on the 1961 Census* (Hong Kong: Government Printer, n.d.), Vol. III, pp. CXIII-IV.

- Officials also took a dismal view of the labour market. They saw the population as suffering from unemployment, under-employment and penury. The 1961 Census recorded an unemployment rate of only 1.3 per cent.³⁷ A chronic shortage of labour had developed as a result of the extraordinary expansion of the manufacturing sector during the previous decade.³⁸

These misinformed attitudes coloured the approach to the social services, encouraging officials to set minimal standards. The Government's ignorance of the total population, its geographical distribution and its economic and social conditions was a particularly grave handicap in developing programmes to rehouse the inhabitants of makeshift squatter huts and squalid slums. These housing conditions created serious fire hazards and threats to public health and law and order which had to be tackled. In the absence of a conventional census, rehousing plans had been based on haphazard data obtained from limited surveys of social conditions. By 1957, increasingly ambitious public housing programmes forced the Government to accept that political convenience had to make way for better statistics, and academics were invited to undertake a more comprehensive survey. Officials feared this exercise almost as much as a full-scale census because they might disclose 'urgent needs', creating pressure on the Government to propose solutions. When its preliminary findings were released to the press, officials were outraged by the publicity and mounted a two-year campaign to discredit both the academics and their findings.. Publication of the full report was suppressed.³⁹

The data deficit was too large to be remedied by ad hoc housing surveys, and even the 1961 Census provided only a partial solution. Not until 1967, when a quarter of the population was already living in public housing, was it possible to compile the first, crude estimates of 'affordability'. These data were essential for setting public housing targets in terms of rents and quality, as well as to determine the balance between rental units and housing produced for sale.⁴⁰ As a result, Hong Kong had already created a housing stock by the mid-1960s whose standard was below what the community needed and could have afforded even in the previous decade.

Never Mind the Workers

In theory, the colonial administration should have been able to find other statistical measures to serve as proxies for missing census and macroeconomic data. For example, information on employment by industry and on earnings and output would have tracked the switch from entrepôt to manufacturing and from penury to rising living standards

³⁷ The dismal predictions about joblessness are noted in Barnett, *Hong Kong. Report on the 1961 Census*, Vol. III, pp. CXVI, 2, 33.

³⁸ As the private sector had already warned the Government. See H. D. M. Barton (Jardine Matheson), *Hong Kong Hansard*, 16 March 1960, p. 94.

³⁹ M. 2 AS2 to DCS., 18 May 1957; M. 3 DCS to AS2, 21 May 1957; M. 18. A2 to Financial Secretary, 25 October 1958 and Acting Financial Secretary (Cowperthwaite) to Colonial Secretary, 21 October 1958; M. 21. Governor, 28 October 1958; and enclosures (38) to (40) for the period 1959-61. HKRS41-1-9339(1) 'Pilot Social Survey of Shek Kip Mei Resettlement Area'.

⁴⁰ See (6) 'Housing Need in Hong Kong' and the related inter-departmental correspondence in HKRS532-3-51 'Housing Research'.

during the 1950s.⁴¹

Hong Kong was committed to the publication of such information by a 1938 International Labour Organisation (ILO) Convention. In 1952, an internal government report noted that Hong Kong had not complied with this obligation. It described the limited labour statistics being compiled as ‘based on hearsay and untested assertions by employers or workers’, ‘almost useless’ and lacking in credibility. The ILO was ready to provide technical assistance to create a modern statistical system, but officials found an excuse to avoid that solution: Hong Kong had no statisticians with whom ILO experts could be able to work, and so none was invited. In 1970, officials were still recording that Hong Kong had not complied with the 1938 ILO convention.⁴²

As a result, the Government’s labour statistics throughout the period under review remained virtually worthless. For example, in 1961, officials admitted that employment-related statistics were backward, particularly by comparison with other Asian economies.⁴³ Over 20 per cent of Hong Kong’s factories engaged in exports were unknown to the Labour Department, and these were not the smallest or worst-equipped.⁴⁴ As a result, data about working conditions was far from comprehensive. Unemployment soared to 9 per cent in the 1970s, but the figures available to track this trend were extremely patchy. Comprehensive statistics on earnings would not be available for another decade.⁴⁵ Productivity data were seriously flawed until the 1980s, despite the introduction of manufacturing censuses.⁴⁶

The Political Price of Blind Planning

The sorry state of labour statistics furnished an early example of how poor data leads to erroneous policies. The outbreak of the Korean War was followed by the imposition of United States and United Nations economic embargoes against the new People’s Republic of China. As a result, the China trade and to Hong Kong’s entrepôt collapsed. The economy seemed to face ruin, and the Government in 1951 feared that mass unemployment was inevitable.⁴⁷ Officials abandoned their traditional *laissez faire* and started to mobilise the private sector to cooperate in organising large-scale

⁴¹ Except where otherwise indicated, the account of labour statistics that follows is based on the following internal correspondence. Acting Commissioner of Labour memo to Colonial Secretary, 1 September 1952 covering a report by S. T. Kidd of 26 June 1952; D. R. Holmes (Colonial Secretariat) memo to Director of Commerce and Industry, 17 October 1952; (5) Commissioner of Labour memo to Colonial Secretary, 23 March 1953; Commissioner of Labour minute to Colonial Secretary, 24 October 1952. HKRS22-1-19.

⁴² (19) Commissioner of Labour to Commissioner, Census & Statistics, 15 May 1970, draft ‘Collection of statistics on employment and related subjects’, HKRS532-3-22 ‘Employment Statistics Bill 1972’.

⁴³ (1A) Commissioner of Labour memo to Colonial Secretary, ‘I.L.O. Fifth Asian Regional Conference’, 22 January 1963. HKRS1017-2-2 ‘Labour Department: General policy (Gibbs Report 1963)’.

⁴⁴ This was a Commerce and Industry Department calculation. (209) Minute to AD, 12 July 1961. HKRS270-1-2-1 ‘Industrial Development Flatted Factories Provision of...’.

⁴⁵ See ‘The New Wage Survey’, *Hong Kong Monthly Digest of Statistics*, July 1983, pp. 100-10 and ‘Salary Statistics of Middle-level Managerial and Professional Employees’, *Hong Kong Monthly Digest of Statistics*, January 1987, pp. 101-7.

⁴⁶ W. A. Reynolds, *Factors which Hinder or Help Productivity Improvement Country Report – Hong Kong* (Tokyo: Asian Productivity Organization, 1980), pp. 86-7.

⁴⁷ Even academic exercises were not available until Ronald Ma and Edward F. Szczepanik, *The National Income of Hong Kong 1947-1950* (Hong Kong: Hong Kong University Press, 1955).

programmes to create jobs and maintain wages.⁴⁸

They were planning blind for a non-existent emergency. The economy was being transformed by a surge in manufacturing. However, there were no national income statistics to monitor the speed with which industrial growth was offsetting the contraction of the services sector as the entrepôt trade disappeared. Nor did the available trade statistics provide an indicator of this dramatic transition. Before 1959, the regular trade series did not distinguish between domestic exports and re-exports, so that the surge in local manufacturing was not being monitored even indirectly. If even the limited data available had been collated and circulated within the Government, the evidence of sustained, high-rate growth would have been clear enough, as Table I shows.⁴⁹

Table I: Domestic Exports & Total Exports, 1951-1960 (HKD millions)

Year	Domestic Exports	Re-exports	Total Exports
1951	n.a.	n.a.	4,433
1952	486	2,413	2,899
1953	635	2,099	2,734
1954	682	1,735	2,417
1955	730	1,804	2,534
1956	783	2,427	3,210
1957	n.a.	n.a.	3,016
1958	n.a.	n.a.	2,989
1959	2,282	966	3,278
1960	2,867	1,070	3,937

(n.a., not available)

The only figures that seemed relevant to officials during the 1951 panic about impending economic collapse were data about the labour market. These were unreliable and only served to intensify the sense of emergency created by the shrinking entrepôt. In drawing up contingency plans, labour officials claimed that of an industrial workforce of 'at least 200,000', a quarter were unemployed, 'together with many more living at the bare subsistence level'; and conditions were expected to worsen. The police, who played an important role in monitoring social conditions at the time, were even more pessimistic and put the unemployment rate at 30 per cent.

All these figures were little better than guesses and excessively gloomy. The only data based on proper statistical surveys had been collected from the squatter population. These showed that among this group, regarded as including the least skilled and the most deprived families, unemployment among males aged 14 and above was only 1.7 per cent. The rate for females was much higher at 19.5 per cent, understandably in a period when women were removed from the labour force by high birth rates, long

⁴⁸ These measures are recorded in HKRS1017-3-4 'Unemployment Relief'.

⁴⁹ 1952 and 1953 data for domestic exports appear to be minimum figures and are from *Hong Kong Annual Departmental Report by the Director of Commerce and Industry for the Financial Year 1952-3* (Hong Kong: Government Printer, n.d.), pp. 1, 6. The 1954-56 data were not published and are from (33) "Report for December 1956", 11 January 1957, p. 1. HKRS22-1-52 'Departmental Monthly Report'. Figures for subsequent years and for total exports are from Census and Statistics Department, *Hong Kong Statistics 1947-1967* (Hong Kong: Government Printer, 1969), p. 88.

lactations, and the garment, plastic flowers and similar industries which created ample outwork had not yet developed.⁵⁰

This incident had important political consequences. In the drive to enlist business support for employment-protection measures, officials abandoned attempts to control monopoly abuses by public utilities, which were creating widespread resentment amongst the community.⁵¹ The failure to resolve these grievances led to public – and business – outrage against the power companies in the 1950s, followed by an official commission of enquiry which recommended virtual nationalisation of the power industry in 1959.⁵² Discontent with the public transport sector led to extensive rioting in 1966.⁵³ (Ironically, officials regarded the lack of transport statistics as the major obstacle to providing a standard of bus service acceptable to the public.⁵⁴)

Banking Battles

From early in the post-war period, the colonial administration displayed an almost insolent indifference to London's instructions to supply data on financial markets. London's instructions to produce the banking returns supplied by the rest of the colonial empire were ignored as long as possible.⁵⁵

Banking Secrecy

By 1953, London was complaining that Hong Kong's banking statistics were useless because HSBC and Chartered Bank were not supplying any data to London, contrary to the impression of Hong Kong officials. Presumably, they were unaware of which banks were making returns because the colonial administration had no interest in such information.

The Bank of England then decided that colonial territories should take direct responsibility for compiling their own banking statistics. But its problems with Hong Kong were not so easily resolved. Within the industry, there was strenuous opposition

⁵⁰ M. 8 A.S.3 to Financial Secretary 14 December 1951; M. 15 A.S.3 to Colonial Secretary, Financial Secretary and Political Adviser, 4 January 1952. HKRS163-1-1376 'Industry and Production. Industrial Situation in Hong Kong'. On conditions in squatter areas, note *Annual Departmental Report by the Commissioner of Labour for the Financial Year Ended March 31, 1951* (Hong Kong: Government Printer 1951), p. 11.

⁵¹ Leo F. Goodstadt, 'Business Friendly and Politically Convenient – The Historical Role of Functional Constituencies', in Christine Loh (ed.), *Functional Constituencies* (Hong Kong: Hong Kong University Press, forthcoming).

⁵² *Report of the Electricity Supply Companies Commission* (Hong Kong: Government Printer, 1959), pp. 15-7, 20, 24, 30-1

⁵³ 'KMB Questions', *Far Eastern Economic Review (FEER)* hereafter), 10 November 1966; Officials regarded the bus company's top management as 'thoroughly unsatisfactory'. M.1 ACS(SD) to DES., 15 June 1965; M. 40 DSS. note, 23 August 1966. HKRS163-1-3238 'The Kowloon Motor Bus Co. (1933) Ltd. Financial problems relating to...'

⁵⁴ M. 56 AS (G.C) to PACS(G), 27 July 1962. HKRS163-1-2283 'Public Transport Formulation of Policy regarding...'

⁵⁵ Except where otherwise indicated, the discussion of banking statistics that follows is based on the following enclosures for the period 1950-53: (18), (20), (24) and (26) in HKRS163-9-88 'Trade. Balance of Payment Statistics. Policy regarding preparation of...'

to public disclosure of the affairs of individual banks. HSBC, the largest bank, objected to supplying data on the grounds that it might be possible to deduce its financial position even from consolidated statistics. (Its management regarded such transparency about its affairs as dangerous.) Some financial institutions simply ignored requests for information. The banks eventually agreed to make the required returns but on the strict understanding that only consolidated data would be transmitted to London and that no statistics would be published without prior consultation with them.⁵⁶

By 1959, however, the pressure from London for greater disclosure in line with general practice in the rest of the British Commonwealth compelled Hong Kong to agree reluctantly to publish some data in a highly abbreviated form.⁵⁷ The usefulness of the published figures was limited. Statistics were not collected from all licensed banks, and the reliability of the data supplied was dubious,⁵⁸ not surprisingly because the exercise was not controlled by professional regulators.

This period was a missed opportunity. The colonial administration failed to develop the expertise needed to oversee a rapidly developing banking industry whose problems had the potential to damage the entire economy. Senior officials seemed unaware that the returns they were collecting, albeit reluctantly and at London's behest, were the basic tool for effective supervision of the industry, while those involved in the rudimentary banking supervision of the 1950s rarely bothered to scrutinise very closely the financial information supplied by banks.⁵⁹

Regulation and Returns

That situation changed completely, with the creation of the Banking Commission, which, from December 1964, took charge of collecting regular data from all licensed banks. The first monthly returns provided a basic profile of the solvency of individual banks and the extent to which they were trading prudently and complying with their statutory obligations.

This innovation came just in time because in early 1965, a fairly large local bank, the Canton Trust, collapsed, taking financial circles by surprise.⁶⁰ The public quickly began to lose confidence in other banks as rumours multiplied. The panic engulfed the Hang Seng Bank, the second largest bank in Hong Kong, whose depositors were only saved by an HSBC takeover. During this major crisis, the Government, for the first time, had adequate information to identify the weakest institutions and sectors which needed shoring up and to estimate what sort of financing would be required. The crisis was

⁵⁶ See the following enclosures for 1953 (127), (129), (132) and Governor to Secretary of State for the Colonies 17 April 1957. HKRS 163-1-625 'Banking Statistics – 1. Supply of to S of S'

⁵⁷ (290) Memo Director of Commerce and Industry to Colonial Secretary, 6 January 1959. HKRS 163-1-625.

⁵⁸ W Ramsay-Main (Hong Kong) letter to F. F. Richmond (Colonial Office), 27 December 1954, HKRS163-1-625.

⁵⁹ Cowperthwaite was a rare exception. See, for example, DFS minute to Financial Secretary 8 April 1952, HKRS41-1-3065 'The Yue Man Banking Co., Ltd - 1. Application from ... for a banking licence. 2. Balance Sheet of ...'; DFS letter to Bank, 8 August 1955. HKRS41-1-3024 'The Foo Kee Bank 1. Application from...for a banking licence 2. Balance Sheet of...'

⁶⁰ The earlier collapse of the much smaller Ming Tak had been anticipated but not the failure of the Canton Trust. R. G. L. Oliphant, Deputy Chief Manager, Hongkong & Shanghai Banking Corporation, 'Banks and Economic Expansion in Hongkong', *FEER*, 22 April 1965.

overcome very creditably.

Reserve Limitations

The crisis had lasting consequences, nevertheless, for the Government's economic and financial management. The Financial Secretary disclaimed his predecessor's commitment to using the Government's fiscal reserves to counter recession.⁶¹ Cowperthwaite argued that Hong Kong was too open an economy to permit the adoption of Keynesian policies to counter an economic recession.

The financial markets, however, were in a different category. He was convinced that the role of the Government's reserves was to prevent a sharp credit squeeze or the threat of devaluation during a 'temporary deflation of credit', whether through bank runs or sudden political or economic shocks (such as the Korean War embargoes and the 1967 sterling devaluation). Because Hong Kong was so totally dependent on external trade, he argued, Hong Kong could only buy its way out of such crises if the reserves were far higher than in other modern economies and held almost entirely offshore.⁶² His attitude reinforced the propensity of the Government to under spend its annual budgets and to accumulate fiscal reserves despite the inadequate infrastructure (most notably, the proposed replacement international airport).

Cowperthwaite's ideal strategy would be to inject liquidity into the financial markets, much as he had done during the 1965 bank runs,⁶³ to avert the danger of an abrupt withdrawal of bank facilities forcing the economy into recession. He plainly believed he had the tools to achieve this objective, presumably because the statutory banking returns had allowed the regulators to survey the state of individual banks, as well as of the different sectors of the banking industry, virtually on demand during 1965 and the political crises of the following two years.

The Financial Secretary, however, over-estimated the Government's ability to offset deflationary pressures. The injection of additional liquidity into individual banks or sectors of the industry hit by heavy withdrawals of deposits had a more limited effect than he realised. The Government's assistance merely relieved the pressure on the banks to call in existing credit facilities, thus preventing a disorderly scramble to liquidate assets to repay bank loans.

The banking returns did not provide a comprehensive profile of the forces at work and of changing investor confidence in particular. Thus, for example, in the aftermath of the 1965 bank runs, the Government believed that property developers had exaggerated their problems when they complained of a mounting crisis because the

⁶¹ A. G. Clarke, Financial Secretary *Hong Kong Hansard*, 23 March 1960, pp. 128-9.

⁶² Cowperthwaite, *Hong Kong Hansard*, 24 February 1966, p. 57 and 1 March 1967, p. 82; (26) Cowperthwaite letter to Sir Frank Figgures (United Kingdom Treasury), 19 October 1970 and 'A Preliminary Note on the International Monetary Fund with reference to dependent territories (and with particular reference to Hong Kong)', pp. 11, 12. HKRS163-9-217 '(A) Meeting of Senior Commonwealth Finance Officials 1970. Sterling Area Balance Of Payments - Developments and Prospects To Mid-1971 (B) Overseas Sterling Area Countries Statistics'.

⁶³ At the height of the 1965 crisis, the government injection amounted to almost 10 per cent of the liquidity of the Chinese banking sector, which were the institutions most at risk. (13) Commissioner of Banking memo to Financial Secretary 2 September 1965, HKRS163-1-3273 'Banking Statistics Various 1965'.

banking returns revealed no decline in the share of loans to this sector. Yet, even before construction had started to slow down, sales of newly-completed flats had begun to slump sharply, signalling a fall in confidence. The Banking Commissioner, however, believed that the statistics on vacant premises could be misinterpreted by the public and tried to suppress their publication.⁶⁴

History Repeated

The lessons of 1965 were soon forgotten. A stock market bubble during the early 1970s led to the establishment of an estimated 1,500 financial firms. Most were undercapitalised outfits financing the speculation of small clients unable to arrange margin facilities from other sources.⁶⁵ Commercial banks warned of the dangers of the expansion of these unregulated financial institutions. But banks themselves were quick to take the opportunity to escape from a regulated market by establishing deposit-taking companies (DTCs) because these were free from the constraints of both statutory supervision and the interest-rate cartel.⁶⁶

In 1974, pressure for tighter controls on DTCs increased. The Government struggled to minimise statutory controls for this sector. The Financial Secretary acknowledged publicly that the lack of adequate information about the secondary banking market made it to assess how stringently it should be regulated. This data deficit made it difficult to challenge the Government when it disclaimed responsibility for ensuring ‘the prudent conduct of business’ by these companies.⁶⁷ They were left largely unregulated until an alarming upsurge in share and property speculation in 1978. The Government then announced that they would be subject to ‘a system of prudential supervision broadly similar to that applied to all licensed banks’, including minimum liquidity ratios. However, officials found that never having collected data from the secondary banking sector, they lacked the information needed to set the ratios for DTCs.⁶⁸

Even after this problem was solved in 1979, the statistical deficiencies of the DTC sector persisted. The regulator, unlike his 1965 predecessor, failed to understand the need to expect the worst from financial institutions which had previously been free from official oversight.⁶⁹ He assumed that the mechanical application of audit procedures would produce reliable information. As a result, DTCs in trouble believed they could cover up spectacular cheque-kiting and other criminal activities to hide

⁶⁴ M. 1 Financial Secretary to PACS(L), 10 September 1965; (7) Rating and Valuation Department memo to DCS, ‘The Real Estate Developers Association of Hong Kong’, Appendix D, 16 September 1965; (4) Commissioner of Banking secret memo to Colonial Secretary, ‘Real Estate Developers Association’, 16 September 1965; M. 9 PACS(L) to DCS, 15 December 1965. HKRS163-1-3284 ‘Problems Affecting the Real Estate and Allied Industries’.

⁶⁵ Y. C. Jao, *Banking and Currency in Hong Kong. A Study of Postwar Financial Development* (London: Macmillan, 1974), p. 96.

⁶⁶ Philip Bowring, ‘Hongkong’s Banks: Newcomers squeeze the Establishment’, *Far Eastern Economic Review*, 1 April 1974.

⁶⁷ Haddon-Cave, *Hong Kong Hansard*, 8 January 1975, pp. 342-3; 5 November 1975, p. 189; 3 December 1975, p. 297.

⁶⁸ Haddon-Cave, *Hong Kong Hansard*, 16 November 1978, p. 209; 28 February 1979, p. 554.

⁶⁹ The case for an urgent programme of independent inspection during the 1965 crisis was made in (1) H. J. Tomkins memo to Financial Secretary 5 March 1965, ‘Suggested Measures to deal with the aftermath of the failure of the Canton Trust & Commercial Bank, Limited’, p. 2. HKRS 163-3-249 ‘Banking emergency 1965 – Matters arising from...staff etc’.

their looming insolvencies.⁷⁰ ‘Imprudence, mismanagement, and malpractice’ had been allowed to take root in the secondary banking sector, and mismanagement and outright fraud in bank-owned DTCs helped to bring down seven licensed banks.⁷¹

A Changing Market

Inadequate statistics also hindered the Government from adapting regulatory practices to changing market conditions as Hong Kong became a major financial centre in the late 1970s. Not until 1981 did it start to monitor certificates of deposit in order, among other things, to decide whether to accept them as specified liquid assets. It waited for five years before starting to collect the information to classify loans by whether they were for use inside Hong Kong or offshore.⁷²

The then Financial Secretary defended the failure to improve the quality of statistics earlier by deriding those who argued that the Government ‘should “anticipate” rather than respond to “problems”’..⁷³ The danger of such indifference to statistical information was highlighted two years later by the spate of collapses among DTCs.⁷⁴

The Invisible Balance of Payments

The colonial administration was totally insubordinate in response to London’s requests for balance of payments estimates, and the colonial administration never published them before the end of British rule.⁷⁵ This saga of defiance began in 1950 when a directive to the entire colonial empire to prepare such estimates provoked derision in Hong Kong. By 1952, London was pointing not just to the obvious need for such data in the management of any modern economy but also stressing their crucial importance for the United Kingdom’s handling of the latest Sterling Area crisis.

Hong Kong took no notice.⁷⁶ The scepticism of the colonial administration about

⁷⁰ Robert Fell, *Crisis and Change. The Maturing of Hong Kong’s Financial Markets* (Hong Kong: Longman, 1992), p. 159.

⁷¹ Y. C. Jao, ‘Monetary system and banking structure’, in H. C. Y. Ho and L. C. Chau (eds), *The Economic System of Hong Kong* (Hong Kong: Asian Research Service, 1988), p. 59.

⁷² Haddon-Cave, *Hong Kong Hansard*, 25 February 1981, pp. 459, 465.

⁷³ Haddon-Cave, *Hong Kong Hansard*, 16 April 1980, p. 733.

⁷⁴ In 1978, deposits from customers with the 241 DTCs were equivalent to 17 per cent of the total with licensed banks. In 1982, the figure rose to 22 per cent but slumped to 10 per cent in 1987, by which date 94 DTCs had closed their doors. *Hong Kong Annual Digest of Statistics, 1988 Edition* (Hong Kong: Census and Statistics Department, 1988), pp. 125-8.

⁷⁵ Except where otherwise indicated, the account of the London-Hong Kong conflict over balance of payments and related data is based on the following correspondence: Secretary of State for the Colonies circular dispatch to Officer Administering the Government, ‘Balance of Payments International Monetary Fund’, 13 September 1950; Acting Government Statistician minute to Financial Secretary 10 October 1950; Director of Commerce and Industry minute to Financial Secretary 6 November 1950; Economic Secretary minute to Financial Secretary 17 May 1952; and the following enclosures for the period 1950-65: (1), (9) (14), (32), (41), (42), (80), (119), (123), (124), (128), (133) in HKRS163-9-88 ‘Hong Kong Balance of Payments’.

⁷⁶ Hong Kong could have supplied the information sought by London, albeit as a ‘guesstimate’. R. A. Ma

the usefulness of such data was only part of the reason. Another factor was the fear that the figures might strengthen London's hands when Hong Kong and British economic interests clashed. Thus, London's initial calls for information on the balance of payments were related to the conduct of the Cold War. It was anxious to estimate the volume of smuggling with the Chinese Mainland.⁷⁷ This information was of considerable sensitivity during the Cold War and the United States' campaign to blockade the People's Republic. Hong Kong's interest lay in minimising restrictions on Mainland trade.

Similarly, when in 1955, London renewed its request for balance of payments information, Cowperthwaite replied to London: 'The [British] Treasury's main, if not sole, purpose for wanting the figures is ... the detection of illegal movements between sterling and dollars through Hong Kong'. The colonial administration not prepared to participate in such an exercise, he declared. His United Kingdom counterpart denied his allegation. The evidence, however, shows that the United Kingdom authorities did seek such data to monitor currency movements through Hong Kong.⁷⁸

Cowperthwaite used the 1955 dispute to attack the compilation of balance of payments data on broader grounds of economic management.⁷⁹

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...'.⁸⁰

He stuck to this outlook throughout his career and paralysed the compilation of macroeconomic data until the 1970s.

By 1961, London was imploring Hong Kong's cooperation, again with no success. When London organised a conference for all colonial territories on balance of payments estimates and their publication in 1964, Hong Kong refused to supply any data and declined to participate in this and all future conferences. London complained of 'embarrassment' caused by the lack of Hong Kong data 'because of [the United Kingdom's] responsibility for supplying information on the territory to Parliament, the United Nations and the I.M.F.'. Hong Kong remained unsympathetic, although the colonial administration itself was using internal confidential balance of payments estimates to monitor economic relations with the Mainland during the 1960s.⁸⁰ The first official estimates were released only in 1999, two years after the resumption of

in the Department of Commerce and Industry had produced figures for 1952. Nobody appears to have paid any subsequent attention to this exercise. (18) secret folder, 7 October 1953.. HKRS163-1-1230 'Trade - Balance of Payments Statistics (Hong Kong) - Working papers and miscellaneous correspondence re preparation of ...'.

⁷⁷ Catherine R. Schenk, 'Hong Kong's Economic Relations With China 1949-1955: Blockade, Embargo and Financial Controls', in Lee Pui-tak (ed.), *Colonial Hong Kong and Modern China: Interaction and Reintegration* (Hong Kong: Hong Kong University Press, 2005), p.213.

⁷⁸ (34) Statistics Office (London) secret memo, 20 September 1956. HKRS163-1-1230.

⁷⁹ (79) Cowperthwaite letter to W. F. Searle, Chief Statistician (Colonial Office), 8 June 1955. HKRS163-9-88

⁸⁰ HKRS163-1-2660 'Exchange Control Monthly and Half-Yearly Statistics of Foreign Exchange Transactions from January 1961'.

Chinese sovereignty.⁸¹

Rough and Ready

London's demands also included national income figures, both GDP and GNP. This time, Cowperthwaite, now Financial Secretary, did not reject the request as unreasonable. Instead, he claimed that Hong Kong Government had been badly let down by an academic hired to undertake the work.⁸² In fact, this professional statistician had produced a set of estimates, but the Government had no intention of giving them any official endorsement. Instead, they were leaked to an appropriate journal, and London invited to make use of them without any commitment by the colonial administration as to their quality.⁸³

Despite Cowperthwaite's disdain for national income estimates, he was not above quoting them when politically convenient. Thus, after the 1965 bank runs, the Government was blamed for worsening business conditions. In reviewing the economy in the following year, Cowperthwaite declared:⁸⁴

The words 'recession' and 'depression' have been freely used during the course of last year [and its bank runs] and, while it is true that some sectors of the economy have receded, the whole economy has done so only in the relative sense of growing less fast. When you have been running at 12-15% and slow down to a trot at, say 6-8% (which is a very rough guess at last year's rate) you have the impression of going backwards—although rivals continue to envy you your speed.

These estimates were hopelessly wrong. The economy had actually expanded significantly during 1965. Cowperthwaite did not perceive that trouble had been postponed till the following period. As he spoke, the full impact of the bank runs on investor confidence was cutting growth. In both 1966 and 1967, real GDP growth was below 2 per cent, well under the trend for the decade. (See Table II) Cowperthwaite's misleading analysis was eventually corrected by his successor not just with the benefit of hindsight but with the aid of GDP estimates reconstructed for the previous decade with his encouragement.⁸⁵

Table II: Gross Domestic Product, 1963-69 (percentage changes)⁸⁶

Year	Nominal growth	Real growth
1963	20.1	15.7
1964	14.0	8.6
1965	17.4	14.5
1966	2.3	1.7

⁸¹ They covered 1997. 'HK's Balance of Payments (BoP) Account for 1997...', *Government Information Services*, 23 April 1999.

⁸² (138) P. Selwyn (Colonial Office) letter to J. J. Cowperthwaite, 21 February 1966: (139) Cowperthwaite letter to Selwyn, 19 March 1966; (141) J. Blades (Ministry of Overseas Development) to Cowperthwaite, 28 April 1966 (142) M. D. A. Clinton (Hong Kong) letter to Blades, 11 June 1966. HKRS163-9-88.

⁸³ They appeared in Our Editorial Staff, 'Hongkong's National Income', 26 May 1966. The author was not aware of why the document had been leaked to him. The official report was not published until 1969: *Report on the National Income Survey of Hong Kong* (Hong Kong: Government Printer, 1969).

⁸⁴ Cowperthwaite, *Hong Kong Hansard*, 24 February 1966, p. 56.

⁸⁵ Haddon-Cave, *Hong Kong Hansard*, 1 March 1972, p. 422; 15 November 1972, p.163.

⁸⁶ *2002 Gross Domestic Product* (Hong Kong: Census and Statistics Department, 2003), pp. 16, 20.

1967	8.4	1.7
1968	6.8	3.3
1969	17.5	11.3

As long as Cowperthwaite remained Financial Secretary, no official national income figures would be published. He was unbothered about defective GNP data: ‘We have a rough idea of where we are, certainly enough for any practical purposes’. As late as 1970, when under pressure from the business community for such figures, he stood his ground steadfastly: the collection of such data would be onerous and expensive, and unpopular with businessmen. Official GNP figures might be ‘more precise and authoritative’, but they were unlikely to be ‘very accurate’. In the last resort, his case, as ever, was the special nature of the Hong Kong economy.⁸⁷

...the leverage exercised by Government on the economy is so small that it is not necessary, nor even of any particular value, to have these figures available for the formulation of policy. We might indeed be right to be apprehensive lest the availability of such figures might lead, by a reversal of cause and effect, to policies designed to have a direct effect on the economy. I would myself deplore this.

In effect, this statement amounted to a confession that official policies would not command community support if the public were fully informed about Hong Kong’s economic situation. It also implied a denial of the right of the community to influence the policies adopted by the Government. The financial secretaries who followed him took a different view of national income statistics. They quoted them with gusto to sell their budgets and their policies to the public. They had little choice. By the 1970s, deference politics were out, and the community was starting to insist on its right to debate and even to protest at government proposals.

Needless Neuroses

The colonial administration’s phobia about the adverse consequences of more open official statistics was entirely groundless. When eventually they were published, social policies did not come under irresistible pressures for reform, and financial management did not become more vulnerable. For example:

- Education officials had complained in the 1950s that without a census, they lacked the data needed for proper planning of an expansion programme for schools.⁸⁸ From 1961, a census exercise was conducted every five years. Yet, education did not become free and compulsory at the primary level until 1971 and for the first three years of secondary school not until 1978, and then only in the face of considerable official reluctance.⁸⁹
- After central provident funds were proposed for Malaya (now Malaysia), Singapore and other colonial territories in the 1950s, Hong Kong claimed that the lack of

⁸⁷ Cowperthwaite, *Hong Kong Hansard*, 25 March 1970, pp. 495, 496.

⁸⁸ M. 15. DCS to DFS(E), 13 May 1957. HKRS22-1-96.

⁸⁹ Cowperthwaite fought hard against free education. *Hong Kong Hansard*, 28 February 1962, p. 57; 25 February 1970, pp. 368-9; 24 February 1971, p. 419. The 1978 reform was prompted by growing disquiet overseas about illegal child labour in Hong Kong factories. Kenneth Topley, Director of Education, *Hong Kong Hansard*, 12 April 1978, p. 737.

census data made it impossible to introduce a similar retirement scheme.⁹⁰ But after the 1961 and 1966 censuses, the Government collaborated with the business community in 1967 to reject proposals for a modern social security programme, alleging that these were inspired ‘by an emotional prejudice against employers in general and profits in particular’.⁹¹ Mandatory provident fund legislation was not passed until 1995, and the scheme only began in 2000.

- On balance of payments estimates, the colonial administration was still insisting in 1970 that their publication would cause ‘misunderstanding and embarrassment’. Senior officials were unaware that estimates of Hong Kong’s balance of payments had been prepared in London without Hong Kong’s help and had appeared regularly in official British publications since 1964. These figures had never attracted any attention locally or abroad, let alone caused any damage or even inconvenience to Hong Kong.⁹²
- Regular release of official GDP estimates from 1972 did not make it more difficult for the Government to pursue its own policies. Officials continued to offer little by way of justification for their financial strategies and budgetary criteria for the rest of the century.⁹³ Fears ‘that the figures would permit and ultimately foster greater government participation in the economy’ proved groundless.⁹⁴ Nor did the colonial administration have to sacrifice its *laissez-faire* principles in favour of populist social and economic goals.⁹⁵

Over a long period, the colonial administration preferred to have few statistics as a matter of convenience. Their absence helped to blunt community demands for government initiatives, principally to improve the social services. Their unavailability limited the evidence that critics might use to demand improvements in government performance. Restrictions on the flow of data allowed the colonial administration to control the content of political debate.

But official figures were never going to be the raw material of revolution or even of reform. Their publication in increasing quantity in the 1970s was inevitable because the Government now recognised the need for a better-informed dialogue with a community that was becoming more assertive.⁹⁶ They did not, however, empower the general public because it was not the shortage of statistical information but the absence of elected representatives in the legislature until 1985 that shaped the political

⁹⁰Hong Kong Annual Departmental Report by the Commissioner of Labour... for the Financial Year 1953-54 (Hong Kong: Government Printer, n.d.), p. 70.

⁹¹ Cowperthwaite ensured the defeat of the proposals contained in A Report by the Inter-Departmental Working Party to Consider Certain Aspects of Social Security (Hong Kong: Government Printer, 1967). 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...’.

⁹² M. 1 AS(E3) to DES, 20 June 1970; M. 3 Financial Secretary to DES, 24 June 1970; M. 5 and 7 AS(E3) to Financial Secretary 26 and 29 June 1970; Governor saving despatch to Secretary of State for the Colonies, No. 781, 29 June 1970. HKRS163-9-217.

⁹³ Tang Shu-hung, ‘A Critical Review of the 1995-1996 Budget’, in Stephen Y. L. Cheung and Stephen M. H. Sze (eds), *The Other Hong Kong Report 1995* (Hong Kong: Chinese University Press, 1995), p. 171.

⁹⁴ Alvin Rabushka, *The Changing Face of Hong Kong. New departures in public policy* (Washington: American Enterprise Institute, 1973), p. 72.

⁹⁵ Lau Siu-kai and Kuan Hsin-chi, ‘Public Attitudes towards Laissez Faire in Hong Kong’, *Asian Survey*, Vol. 30, No. 8 (1990), pp. 768-80.

⁹⁶ This shift in attitudes was signalled by Haddon-Cave, *Hong Kong Hansard*, 9 March 1972, p. 612.

landscape.

The China Factor

Despite the increased flow of official statistics from the 1970s, Hong Kong had to pay a price for public mistrust created by the dearth of data in the past. The failure to publish the same range of statistical information about the economy as other modern societies allowed the assumption to flourish that Hong Kong remitted large but unpublished subsidies to the United Kingdom as a form of colonial tribute.⁹⁷ In the 1980s, the Chinese Government showed that it shared the local community's cynicism about British financial management of its colony. Chinese leaders were convinced that the United Kingdom exploited the colonial relationship on a considerable scale. For example, President Jiang Zemin's claim that the annual 'profit' remitted to the United Kingdom in the final period of British rule totalled US\$5 billion was put into circulation in an attempt to discredit the colonial administration's motives.⁹⁸

The Chinese authorities denounced infrastructural projects as an attempt to transfer Hong Kong's financial reserves to British contractors, Beijing attacked improvements to social services as unaffordable and likely to bankrupt Hong Kong.⁹⁹ The charges were fuelled by the absence of long-standing statistical series enjoying an established credibility among Hong Kong's opinion-makers. These suspicions complicated Sino-British negotiations on Hong Kong's future from 1982 onwards by aggravating misunderstandings and recrimination.

Conclusions

This paper has identified significant examples of the way in which limited statistical information handicapped the Government's capacity to formulate effective policies. The consequences were not confined mainly to the development of housing and social services. This paper has shown that the data deficit also handicapped the response of the colonial administration to its economic and financial challenges. Once adequate statistics were available, the quality of the Government's performance was impressive, as supervision of the banks demonstrated after 1964. In contrast, where the need for statistical information was neglected, notably in the case of DTCs during the 1970s, the financial system remained vulnerable to crisis and scandal.

The hostility towards statistics fostered by the traditional bureaucratic culture resulted in greater costs than any political advantages which the colonial administration expected to gain. This paper has pointed to the way in which past failures to provide comprehensive statistical information aggravated mistrust of the colonial administration among Chinese officials during the final phase of British rule.

⁹⁷ A belated official attempt to refute this widespread belief can be found in D. W. A. Blye, Secretary for Monetary Affairs, *Government Information Services*, 24 November 1981.

⁹⁸ *Wen Wei Po*, 20 March 1993.

⁹⁹ Michael Yahuda, *Hong Kong. China's Challenge* (London: Routledge, 1996), pp. 62, 71-2; Hugh Davies in Bruce Herschensohn (ed.), *Hong Kong at the Handover* (Lanham: Lexington Books, 2000), pp. 132-4; Jane C. Y. Lee, 'Public Sector Reform and Public Sector Accountability', 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. 81-2.

The overall conclusion of this paper is that the ‘invisible’ hand could not be relied upon to repair policy errors, even in a *laissez-faire* regime dedicated to small government. It also endorses the reservations that economists have entertained about the data available to chart Hong Kong’s astonishing growth after World War II.

Reconstruction of the statistical past seems impossible. Contemporary academics made valiant attempts to repair the data deficit for the 1950s, with estimates of population, national income and other key indicators.¹⁰⁰ These endeavours involved very brave assumptions during a period in which there were no census-based demographic data, no accurate figures for industrial establishments or employment, no reliable statistics on wages or earnings, indifferent banking data and limited published statistics for domestic exports. The difficulties of estimating macroeconomic data were compounded by the speed with which Hong Kong shifted from *entrepôt* to manufacturing and then diversified from cotton spinning and weaving to garments and a complex mix of often short-lived consumer products.

The data gaps were so daunting that British official statisticians described the Bank of England’s statistical reviews of Hong Kong in this decade as ‘pretty worthless’.¹⁰¹ Significantly the Hong Kong Government’s reconstruction of GDP data for the 1960s involved considerable revisions to the original official estimates.¹⁰² Against this background, development economists have had good reason to be doubtful about their ability to specify Hong Kong’s growth model in more than generalities.

¹⁰⁰ Notably Edward Szczepanik, who was indefatigable in investigating demography, housing, prices and national income (e.g., *FEER*: ‘The Hongkong Population Puzzle’, 29 September 1955; ‘Hongkong’s National Income’, 24 Dec 1959). More considered and much quoted is K. R. Chou, *The Hong Kong Economy: Miracle of Growth* (Hong Kong: Academic Publications, 1966).

¹⁰¹ This was the unflattering verdict of the Colonial Office’s Statistics Department. P. Selwyn minute to Sir William Gorell Barnes, 6 July 1961. London Public Records Office CO1030/1300 ‘The Future of Hong Kong’

¹⁰² Haddon-Cave, Financial Secretary *Hong Kong Hansard*, 28 February 1973, pp. 457-8.