Brexit Britain must look to Hong Kong for a powerful blueprint for success

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Our political leaders still seem to lack a vision of what Britain can achieve outside the EU, even a year after we voted for Brexit. We know we are leaving the single market and the customs union, but we have heard little of how we can navigate this turbulent period and emerge economically stronger at the end of it.

Perhaps they are lacking in inspiration. If so, another anniversary could provide it. It is 20 years since the handover of Hong Kong to China. This former British colony, once described as “the barren island” and left devastated by Japanese occupation during the Second World War, is now one of the richest places in the world, with income per capita 40 per cent higher than Britain’s.

Could we emulate this economic miracle after we leave the EU? Quite possibly, if we follow the principles of a shy, intellectual Scot, virtually unknown in his native Britain.

Over his 25 year career until his retirement in 1971, much of it as Hong Kong’s financial secretary, John Cowperthwaite steered the colony through a period as challenging as Britain faces today.

Its recovery after the War was built on trade and this collapsed when sanctions were imposed on China during the Korean War. Hong Kong responded by building a textile industry that then ran into protectionist pressures from the UK, the US and the EU. There were banking crises. Mao’s Cultural Revolution spilled over into Hong Kong causing violence and deaths.

Faced with this environment, Cowperthwaite could survey the approach being taken in much of the West: deficit financing, industrial planning, state ownership of industry, universal welfare and higher taxation. How much of this did the British civil servant think worth transposing to Hong Kong? Virtually nothing.

He had a simple alternative: government spending depended on government revenues, and this in turn was determined by the strength of the economy. Therefore, the vital task for government was to facilitate growth. Only through such growth could society’s aspirations be met, and jobs for the expanding population be found.

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He thought private companies, risking their own capital, were best placed to identify opportunities. He believed in the freest possible flow of goods and capital. He kept taxes low in order that savings could be reinvested in businesses to boost growth. And he not only shunned government borrowing, he aimed for a surplus.

Cowperthwaite’s view was that higher government spending today destroys the growth of tomorrow. Indeed, over the last 70 years Hong Kong has limited the size of the state to below 20 per cent of GDP (in Britain it is over 40 per cent) and growth has been substantially faster than in the UK.

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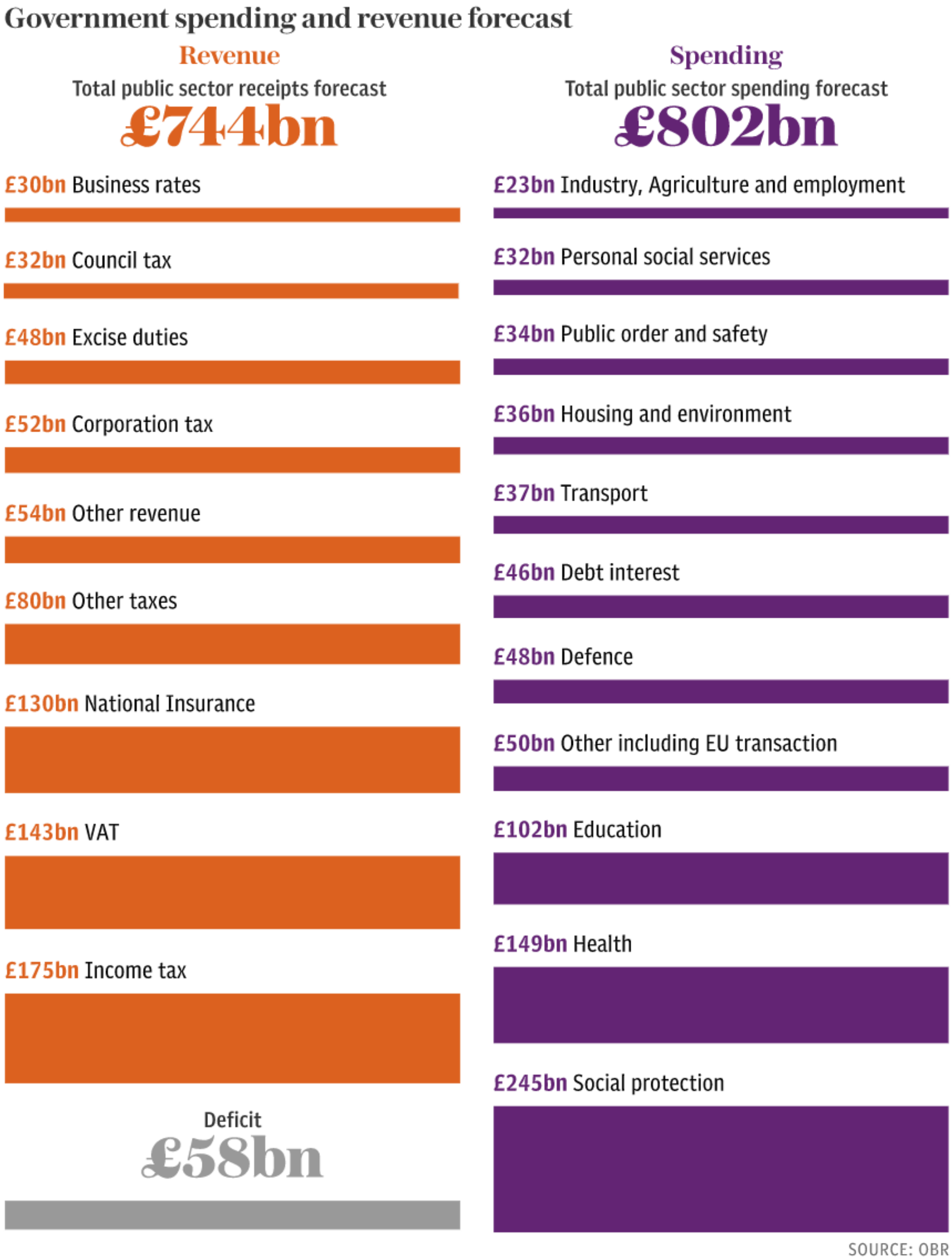

He made a moral case for limiting the size of government, too. Like everyone, he could see many ways to spend taxpayers' money to improve today's living standards. But, because he was loathe to finance a current need at the expense of the future, every proposal for greater expenditure had a high bar to meet.

Choosing growth over current spending in Britain today would require a radical redesign of the shape of the state, and political pressure seems to be flowing in the opposite direction. But if we did review our approach, what would we change?

Cowperthwaite was particularly alert to the dangers of state spending becoming a subsidy for middle and higher income groups. Limited resources should instead be targeted on the very needy.

He would examine each commitment on its merits, however, and not simply apply a doctrinaire approach. Despite Hong Kong's laissez-faire economic model, the state has a massive involvement in the property market with around a third of the population today renting government-built housing.

After a fire swept through Shek Kip Mei shanty town on Christmas Day 1953, the government took the view that the private sector could not build sufficient homes for the huge number of unhoused immigrants, so it acted.

To keep costs and rents low, the apartments it built were deliberately small, basic, and mostly some distance from the centre. They were hugely popular, and kept a lid on rents in the private sector, too.

Nevertheless, Cowperthwaite had a strong view on the need to trust markets and did not want companies' decisions to be driven by the state, unless absolutely necessary.

Some have misconstrued this as blind faith in business. Absent a functioning market, he like Adam Smith, was doubtful that companies would pursue anything but their own interests. It was the market that tamed them.

He was very happy to regulate monopolies or public goods, and had no problem with intervening where he thought the market had failed.

This could be a useful distinction to make today. For those who witnessed the failure of industrial and economic planning in the 1970s, it may seem odd that demands for nationalisation and the like have resurfaced. It is not because of any improvement in the terrible record of centrally planned economies. Our faith in the capitalism has been tested by lower growth in living standards, the effects of globalisation and automation, the unhealthy relationship between government and business, and dubious corporate behaviour.

Cowperthwaite would be equally surprised at the level of involvement that the government has in many competitive markets as he would be at its lack of involvement in monopolies and dysfunctional markets.

Cowperthwaite and his colleagues were ardent believers in the benefits of free trade. He spent considerable time negotiating and agreeing trade deals, and defending against protectionist sentiment in the UK, the US and the EU.

Hong Kong has prospered by allowing capital, goods and services to flow freely, with Cowperthwaite arguing that: "We enjoy a considerable net inflow of capital and I am sure that a condition of its coming, and staying, is that it is free to flow out again."

He would have celebrated the success of GATT and the World Trade Organisation in reducing tariffs which averaged over 20 per cent after the War, but are now below 5 per cent. He would be confused as to why the prospect of trading under WTO terms post-Brexit generates such dismay. Tariffs were a great deal higher when he was in office.

But even when others imposed tariffs on Hong Kong goods, he argued that Hong Kong should not reciprocate, except as a negotiating ploy. Retaliation would simply lower the welfare of Hong Kong.

He looked back to Britain's golden age under Queen Victoria when, despite Germany having an average tariff level of 13 per cent and France of 20 per cent, Britain's handful of tariffs produced an average tariff level of effectively 0 per cent.

There can be little doubt of Cowperthwaite's formula for Britain today. He would want lower government spending, but not at the expense of the most needy; he would suggest we trust more in markets, while tackling monopolies or market failure; he would argue for free trade and for being slow to impose tariffs, even when others have; and he would continue down the long road to restoring sound government finances.

He, of course, had the luxury of "only" having to choose the best economic approach, without the need to get re-elected. It takes almost no time to see how difficult it would be to adopt the policies that Cowperthwaite and his colleagues deployed in Hong Kong. And perhaps only a minute longer to understand how many would argue against such a plan.

But we cannot afford to ignore his proven success. If faster economic growth is a strategic necessity for Britain outside the EU, Cowperthwaite's policies provide a powerful and coherent blueprint as to how to achieve it.

You can also see the article a: http://www.telegraph.co.uk/news/2017/06/24/brexit-britain-must-look-hong-kong-powerful-blueprint-success/ although you may have to register.