

ARCHITECT OF PROSPERITY: John Cowperthwaite and the Making of Hong Kong

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The small autonomous region of Hong Kong is one of the largest successes in recent economic history.

It is a mountainous spur and scatter of islands, bereft of any resources except one of the finest natural harbours in Asia. It faced repeated crises during and after World War II, especially due to the Chinese Communist Revolution.

Despite these unpromising beginnings and subsequent trials, Hong Kong achieved staggering economic success.

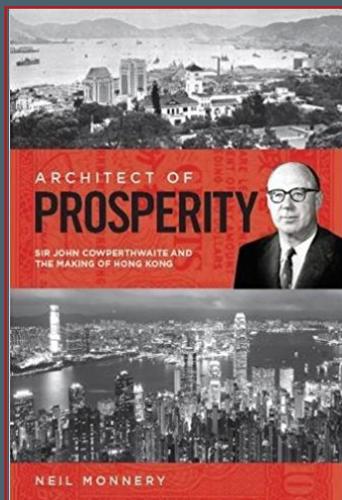
Its population rose from around 600,000 in 1945 to over seven million today. It boasts one of the world's most beautiful and modern skylines and elegant and effective infrastructure systems.

And its income per capita has risen to levels one-third higher than its former overlord the UK, with an average life expectancy greater than Switzerland.

This book tells the story of Hong Kong's success, focusing on the career of Sir John Cowperthwaite who played key roles in the colony's administration from 1945 to 1971.

Monnery tells the story with verve and accuracy, providing one of the best compact economic histories of Hong Kong in the second half of the twentieth century. It reads as something of a morality tale.

Cowperthwaite faithfully kept to five principles: low taxes, minimal government services, free trade, fiscal prudence and laissez-faire (e.g. no policies to favour industries or shape the economy). As the colony grew richer, the government



provided more education, health care and infrastructure.

Monnery shows that Cowperthwaite made missteps. He was caught off guard by banking crises, not really understanding finance. He fought against developing an underground metro system, which is now one of Hong Kong's greatest assets.

Still, Monnery argues that Cowperthwaite's laissez-faire, low-tax regime was responsible for Hong Kong's astounding success.

The problem with this thesis, however, is that another Chinese autonomous region – Shenzhen, on the mainland just north of Hong Kong – has operated under a different system and enjoyed even greater success!

In just under forty years, Shenzhen has gone from a small village to a modern city of 18 million, boasting world-class technology firms and a total GDP almost equal to that of Hong Kong.

Evidently, being the

main foreign investment/manufacturing/export centre of the world's fastest growing economy, as Hong Kong was from 1945 to 1980 and Shenzhen was from 1980 to the present, is a hugely favourable situation for rapid economic growth. This seems to hold whether under laissez-faire colonial rule or "socialism with Chinese characteristics."

The real story of Hong Kong is less the virtues of its small government approach than the adaptability of its business community. Every step of the way, when hit by crisis, the business community adapted, even up to the present day with a movement into higher-value-added exports.

Can it last? Or will Hong Kong become just another Chinese city, overtaken by Shenzhen and Shanghai?

On the one hand, as long as Hong Kong's currency, legal system, and property are seen as more stable and secure than those of mainland China, resources will continue to flood in to keep Hong Kong afloat.

But Hong Kong's adaptability may fade in a new world driven by financial technology, artificial intelligence, and greater competition from cities in mainland China and throughout south-east Asia.

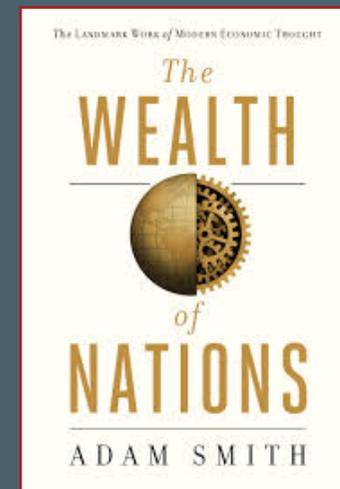
We shall need another book on Hong Kong a decade hence to tell us if its adaptability to change can continue in the future.

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THE WEALTH OF NATIONS

ADAM SMITH W. STRAHAN AND T. CADELL 1776

(now widely available in different versions, including online)



Adam Smith's political economy enjoys a universality that makes it, in many regards, applicable to present times and contemporary problems (public debt reduction, free trade, containment of public spending, etc).

After the publication and rapid success of *The Wealth of Nations*, restrictions to trade came to be regarded as the result of a silent domestic conspiracy between opportunistic businessmen and politicians, with direct harmful consequences to the common good.

To Smith, the pursuit of self-interest (not to be confused with selfishness) is not intrinsically evil: what is needed is a system that channels that self-interest in such a way that makes it an ally of general prosperity.

Such a system requires a realistic anthropology and a legal and ethical-institutional framework that allows the market economy to operate in a beneficial way.

When that happens, the market mechanism does the rest: by pursuing its self-interest, individuals will frequently be promoting society's interest "more effectually than when he really intends to promote it." (WN IV.ii.9).

According to Smith, under the conditions of natural liberty trade occurs through free and voluntary exchange between the agents involved, which makes the result mutually acceptable. No individual would take part in an exchange if he knew he would end up in a worse

position than before.

But the interplay of personal interests does not occur only in the market. It also takes place in political processes. Hence Smith's emphasis on the impartial spectator and on rules of conduct that make possible co-operation in society.

An open and competitive market, based on free trade and voluntary co-operation, provides the best prospects for prosperity. National defence, the administration of justice and the rule of law are necessary pillars for sustaining that framework and thus are the central tasks of the state.

The main argument in *The Wealth of Nations* can thus be summed up as the idea that liberty and the pursuit of self-interest under an adequate institutional framework do not lead to chaos but rather lead individuals – as if guided by an "invisible hand"—to produce order through a decentralised process of social co-operation based on the market.

The concept of the

"invisible hand" refers to the complexity of social order. A complexity that should lead aspiring central planners to be particularly careful about, to use Bastiat's expression, "what is seen and what is not seen" before intervening in the market economy.

It is however important to note that Smith's view of the market economy is in fact quite distant from the contemporary neo-classic model of "perfect competition" beloved of textbooks.

Smith emphasises, unintended consequences and the dense web of human motivations and sentiments that underlie social interactions. This makes Smith closer to the dynamic view of the market process held by the Austrian School.

The Wealth of Nations should be regarded as an explanation of how human interests can be harmonised through the market process but not as a claim that they are always or naturally in harmony. Smith's emphasis on the need for an adequate institutional framework is a realistic approach.

Human nature does not change, and Smith's analysis and understanding of human nature was correct. As such, *The Wealth of Nations* remains highly relevant to any student of economics.

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