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LI KUO-TING OF TAIWAN AND JOHN
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Abstract

This paper compares economic management of two architects of Asian economic miracles, namely, Li Kuo-Ting of Taiwan and John Cowperthwaite of Hong Kong. It reveals that two financial ministers showed drastically different management styles. Li Kuo-Ting of Taiwan took on a ‘directive’ approach while John Cowperthwaite of Hong Kong relied on the free market in resource allocation. However, both economies achieved impressive economic growth during the post-war period. This comparison reveals that there are many paths to economic development. Furthermore, common ground in economic management of two governments is worth mentioning. Both Taiwan and Hong Kong demonstrated themselves as a competent government. Both governments were good learners and took on a pragmatic approach in economic management. Finally, their economic policies, be ‘directive’ or ‘facilitative’, showed respect to private businesses. In both economies, governments relied on private enterprises to promote economic dynamics. Hence, this paper concludes that it would be fruitful to investigate different ways in which governments and markets are interrelated and how governments and private businesses can cooperate to achieve economic growth.

Keywords: Li Kuo-Ting, Taiwan, John (James) Cowperthwaite, Hong Kong, public sector management

1. Introduction

Taiwan and Hong Kong showed dazzling economic growth during the post-war period (1950s-80s). They are the Asian Newly Industrialized Economies that the World Bank (1993) refers to as ‘East Asian Miracles’. However, two economies took drastically different paths in their economic development. In Taiwan, the government

took directive role in economic affairs while the Hong Kong government embarked on a laissez-faire policy. The drastic differences in government policies in economic development in two economies beg the question of the role of the government in economic development. Neoclassical free market economists generally argue in favour of the 'invisible hands' in the four Asian Newly Industrialized Economies. They contend that government intervention policies in these economies are in general market conforming or market sustaining (World Bank 1993). In particular, Milton Friedman (1980:57) insists that "Malaysia, Singapore, Korea, Taiwan, Hong Kong, and Japan-relying extensively on free markets-are thriving... By contrast, India, Indonesia, and communist China, all relying heavily on central planning, have experienced economic stagnation". Furthermore, free market economists insist that Taiwan was able to grow rapidly in the 1980s only after the government liberalised its economy. For example, Cheung (1989:82) argues that Taiwan has become prosperous in recent decades because its government has taken steps in deregulating the economy and in reducing taxes. Economists at the World Bank and International Monetary Fund (IMF) conclude that if other developing economies want to grow faster, the key is "getting prices right" and avoiding distortions in the market.

However, scholars from political sciences, such as Wade (1988; 1990), Johnson (1982; 1992), White (1988), Amsden (1989), Weiss and Hobson (1995) disagree with the views of neoclassical free market economists. For them, the government in Taiwan intervenes extensively in the economy and actively promotes many new industries. It is said that in Taiwan, the government defines the growth, productivity and competitiveness of their economies (Johnson 1982). It explores opportunities and sets the direction for the businesses to follow. The government in the island economy is "not only as the source of economic policy, but also as the proprietor, entrepreneur and operator of industrial and commercial enterprises" (Lichauco 1988:111). In short, the economy of Taiwan has been engineered by the government and is a prototype of government-led growth (Deyo 1987:17).

There are also debates on the economic miracle of Hong Kong. Hong Kong has been referred by Milton Friedman and other free market economists as a classical model of free capitalism of Adam Smith. It has often been described as a capitalist paradise (Woronoff 1980) or the last bastion of laissez-faire by free market economists (Rabushka 1979). In particular, Schneider (1997:12-13) notes:

Hong Kong is the closest existing model of an ideal, laissez-faire state as Adam Smith envisioned two centuries ago. There are virtually no tariffs or non-tariff barriers to trade. There are few limits on immigration. Low tax rates have created a large incentive to produce and prevented a "brain drain". This precipitated to the emigration of highly-skilled professionals, such as doctors and scientists, from other countries with higher tax rates, like Britain in the 1960s. The almost total lack of regulation and corresponding freedom of exchange has left Hong Kong's citizens unfettered in their productive capacity, and led to a massive increase in standard of living. These factors have resulted in Hong Kong's astounding growth.

However, in a compelling study, Schriffner (1991:180-196) argues the interventional role of government in economic development of Hong Kong. His examination of economic policy (both micro and macro) of the Hong Kong government (Schriffner (1991:194-195) suggests that

non-market forces intervene significantly in all factor markets – land, labour, raw materials and capital – having the combined effect of lowering costs of production for small-scale industry, the backbone of Hong Kong's export led growth. It would appear that those who have represented Hong Kong as sterling example of unfettered laissez-faire capitalism have been mistaken.

Despite numerous studies on economic development of Taiwan and Hong Kong across different disciplines, none of them investigates in detail the thinking and practices of those policymakers who work behind the economic successes of both economies. Specifically, the most important architects of the economic success of Taiwan, such as Yin Chung-Jung and Li Kuo-Ting, have never been studied or simply been ignored.¹ In Hong Kong, systematic research on the architects of Hong Kong's

¹ In a seminal study on Taiwan's economic development, Wade (1990) cites Li's works six times. None of the citations discusses Li's biography and thinking. For biographical information regarding Yin, see note 7.

economic miracle, namely John Cowperthwaite and Phillips Haddon-Cave² is also lacking. It is not difficult to understand the reason for neglecting these important policymakers in mainstream neoclassical economics. Human agency has no place in neoclassical mathematical growth models. It must be iterated that the making of national economic policy is principally in the hands of policymakers. It would be odd to study a policy change without making reference to the thoughts and actions of policymakers. To understand economic success in an evolutionary perspective, it requires us to know major political and economic players who are in charge of the economy. Li Kuo-Ting and John Cowperthwaite have been widely recognised as distinguished policymakers of the economic growths in Taiwan and Hong Kong respectively. In what follows, this study will present the thoughts and economic management of these two financial housekeepers. We shall draw some common insights from their economic management and hence shed new light on the economic miracles of these two economies.

2. A Brief Biography of Li Kuo-Ting³

Li Kuo-Ting,⁴ who was Taiwan's Minister of Economic Affairs (1965-69), has been regarded as a very capable government official. Although Li is well known to Taiwanese people,⁵ he is relatively unknown to the western academic world. Li Kuo-

² Philip Haddon-Cave was the Financial Secretary of Hong Kong from 1971 to 1981. He adopted "positive non-interventionism" as its chief principle during the period when he was in charge of the economic policy of the Hong Kong government. He was subsequently appointed the Chief Secretary, in which post he served from 1981 to 1985. (http://en.wikipedia.org/wiki/Charles_Philip_Haddon-Cave; accessed on 24 August 2008).

³ Also known as Li Kwoh-Ting or K.T. Li

⁴ In this paper, following the Chinese convention, the last name of Li Kuo-Ting is put at the front, before the first name. All other names follow the western convention.

⁵ Li Kuo-ting is well known in Taiwan. Several research or information centres have been set up and devoted to the study of Li. The National Central University Library and the Institute of Modern History (Academia Sinica) have set up special archives to collect his information and photographs. The K.T. Institute for Information Industry (Taiwan) constructs a memorable website for Li. The Li Foundation for Development

Ting was born in Nanjing (formerly Nanking), China on January 28, 1910 and died in Taipei, Taiwan on May 31, 2001. After his university education in Nanjing, Li went to the University of Cambridge in 1934 to study physics. Returning to mainland China, Li spent many years in industry. He fled to Taiwan in July 1948 with the Nationalist Party which lost a civil war to the Chinese Communist Party. He became the president of the Taiwan Shipbuilding Corporation in 1951. In 1953, he was appointed as a member of the Industrial Development Commission which was responsible for planning economic development of Taiwan. Invited by Mr. Yin Chung-Jung (Taiwan's Minister of Economic Affairs at that time)⁶, Li headed the Industrial Development and Investment Centre under the auspices of the Council for United States Aid in 1959. In 1965, Li joined the Cabinet, first as the Minister of Economic Affairs (1965-69) and later as the Minister of Finance (1969-76).⁷ Since 1976, he was appointed as the Minister without portfolio, promoting science and technology in Taiwan. Li and other economists helped formulate a policy that attracted entrepreneurs in high-tech industry and provided government funding to electronics companies in Taiwan. He created a large industrial park in the port of Hsinchu which came to be known as Taiwan's "Silicon Valley". This policy helped Taiwan quickly become a leading producer of computer parts (Li 1995).

3. Taiwan's Economic Progress in Li's Time

When Li Kuo-Ting and Chiang Kai-Shek's Nationalist Party came to Taiwan at the end of 1940s, the island was still a traditional, pre-modern agricultural society,

of Science and Technology set up a Li-Kuo-Ting fund to promote the development of science and technology in Taiwan.

⁶ Yin Chung-Jung came to Taiwan when mainland China was taken over by the Communists. In 1954, he became the Minister of Economic Affairs and the director of Central Trust of China. Yin's economic policy was heavily influenced by Professor S.C. Tsiang. Yin's work is said to lay the foundation for Taiwan's economic recovery in the 1950s (Wou 1992:164).

⁷ When Li was responsible for major macroeconomic policies between 1963-1973, Taiwan's gross national product and industrial production grew at an average rate of 10.1 per cent and 18.5 per cent respectively (Economic Planning Council 1976:2; Li 1995:346).

although there were some rudimentary industries such as cement, chemical and metal manufacturing. The Chiang's government exercised a tight economic control on the island and embarked land reform programmes during 1949-1953. A gradual increase in farmers' income set the stage for the development of labour-intensive light industries. In 1953, the government launched a series of four-year economic development plans. Between 1953-1960, Taiwan witnessed a considerable economic progress. The average annual economic growth was 7.6 per cent during the period (Li 1995:12). Rapid industrialization was experienced during 1961-1972, with annual economic growth increased from 7.6 per cent in the 1950s to a peak of 10.2 per cent in 1972 (Li 1995:13). Both income and living standards had improved substantially over time. By 1979, three years after Li retired, Taiwan's per capita gross national products had reached US\$1869. An increase in income brought improvements in living standards. Per capita daily calorie intake in Taiwan increased from US\$2390 in 1960 to US\$2830 in 1979, the highest in Asia (Li 1995:16). We would like to investigate how Li Kuo-Ting managed the economy of Taiwan.

4. Li's Evolutionary Economic Policy

From Li's biography, we know that Li never had any formal training in economics. His knowledge on economic management was largely gained from daily practical experience, through trial and error, working with economists in an effort to help the government shape its economic policy (Li 1988:25). As a result, his policy formulation was largely immunized from economic ideology. In deciding a policy, he simply took a pragmatic approach. Evidences in Li's books and monographs suggest that his national management and policies are largely evolutionary and gradualist. More importantly, though rather ironically, his trial and error policies which is evolutionary in nature has steered Taiwan into an economic success. This can be seen from Taiwan's liberalization policies. According to Li (1995:210), liberalization of an economy represents a process of depoliticizing the economic system, as the creative energies of the population are channelled increasingly through the market mechanism, and there is less and less political interference. A free market is not given in social calculus. It must be constructed, slowly, through a process of changes in policy focus. Furthermore, "the simultaneous depoliticizing of the economic system on all fronts should not be viewed as a sudden burst of the dam. Rather, it has been a slow but sure cumulative process that began with and accommodated the externally oriented growth

phase that started in the early 1960s” (Li 1995:210-211). Liberalization, as an economic reform, was “a long gradual process rather than following the international wave of free market ideology appearing in the 1960s and the 1970s. It is important to note that the liberalization movement in Taiwan gained momentum through time in small cumulative steps rather than by large leaps and bounds” (Li 1988:19).

Li also illustrated his gradual and incremental approach in economic management by the example of the import substitution strategy which Taiwan adopted during its early stage of industrialization. Under the policy, the sheltering of domestic manufacturers by political means brought about an intense fear of competition. It is one of those vicious circles of underdevelopment that the fear generated under political protection in turn generated demand for the very political patronage that created the fear in the first place. Thus, to open an economy to international competition can only be a slow gradual process, because it must work against the intertwining of vested ideas (including deep-rooted fear) and interests. Initially, the fear of competition was manifested in both domestic and international markets. With experience in world markets during external orientation phase, fear of international markets was alleviated. The success of domestic producers following the opening of domestic market ultimately allayed the former fear as well. This is not to say that manufacturers liked the competition, only that they ceased to be afraid of it (Li 1995:241).

5. A Pragmatic Approach to Problem solving

Li (1995:252) argues that policy evolution involves an analysis of two types of issues. One is the issue of the impact of policy in the narrow sense. Popular understanding of what policy is all about invariably focuses on this issue. The other is the issue of causation - the reason a particular policy appears at a particular time in an evolutionary perspective. The issue, therefore, is why a particular policy is adopted. This is a difficult political issue, often an ideological one. However, Taiwan solves these issues in a particularly pragmatic way. To put it differently, it is a problem-oriented approach to policy formulation that characterizes the Taiwan government. For example, in the late 1970s, other countries with lower labour costs began to compete with Taiwan’s traditional export products. There was a need for Taiwan to upgrade technological sophistication in its industrial structure. Problem-solving policies involved the promotion of technology-oriented science parks as a replacement

for the more labour-intensive export processing zones, promotion of spending for research and development, and more rigorous enforcement of patent and trademark rights (ibid:215). Taiwan's experience demonstrates that the island economy is able to identify needs, devise and initiate development programs, and carry them to completion (ibid:305).

In Li's view, pragmatism should override ideology during decision-making process. "Policy innovation should be based on the anticipation of impending problems and conflicts, rather than be purely ideologically motivated... The very notion of an evolution of policy suggests that the timing (or timely appearance) of a particular policy is important, and a good policy innovation is one that does not arrive prematurely. Ideological considerations often get in the way of appropriate timing as, for example, with so-called welfare state legislation that the economy simply cannot support. What can almost be called a rejection of ideology lies at the heart of a healthy *pragmatism* that has guided policymakers in Taiwan and has supported a social consensus for growth and economic liberalization." (ibid:251; italics added).

6. A Learning Government: Elimination of Errors, Revision of Plans and Policy Change

During the period of Li's economic management, many new policies were adopted and later modified or abandoned by the government of Taiwan as problems arose. This is recognised by Li (1995:37):

From the short history of Taiwan's planning machinery it has been learnt that while economic planning needs to take into consideration a great many complex factors, frequent revisions of the plan are also necessary to cope with unexpected developments during the course of implementation, which in turn call for coordination, follow up and evaluation.

The flexibility of Taiwan's government policy, as Li claimed, made it possible to abandon ineffective programs and devise new ones to meet changing conditions (ibid:305). For example, in agricultural reforms, Taiwan attempted to design a series of programs to boost rice production. The government supported rice prices in 1974, partly because of rice shortage in 1973 and partly because of inflation during the first oil crisis. This policy was later found to distort prices and disrupt the balance between

demand and supply. This price quarantine program, which tried to reduce the income gap between rural and urban workers, was very costly. It led to a huge stockpile of rice. Surplus rice was also sold on world markets at lower prices and foreign countries accused Taiwan of practising dumping. Agricultural protection programs, though conducted in many advanced industrial nations, appeared to be an inadequate development policy, leading to the emergence of many economic and social problems. To correct the policy, in 1984, the government introduced a six-year program to encourage the conversion of paddy land to the growing of fruits and vegetables, corn, soybeans and even fodder for dairy cows in order to alleviate the burgeoning rice surplus. Li (ibid:225) felt that Taiwan should further liberalize its agricultural sector after being admitted to full membership in GATT in the early 1990s.

7. Learning to be a Responsible Government: Rejection of Inflationary Finance

Evolutionary economics focuses on the effect of learning and the correction of errors. Li Kuo-Ting was a government official when the Kuomintang controlled mainland China. Therefore, he was well aware of the harmful effect of hyperinflation. As a direct result of the Kuomintang's inflationary finance policies, Chang Kai-Shek lost mainland China to the Chinese Communist Party. Li, therefore, condemned every means of inflationary finance during the time he managed the economy of Taiwan. He claimed that "Taiwan's experience shows that fiscal reforms (tax legislation) and monetary reforms (moving toward central bank autonomy) are major evolutionary steps taken by a responsible government.... What underlies both reforms is a rejection of the insanity of relying on the printing press to create purchasing power for the government to use in an effort to solve socioeconomic problems" (Li 1995:233).

Li was content with his capability to control inflation. In his view, what made Taiwan differ from other Latin American countries was its rejection of using inflationary finance as a method of obtaining resources. He claimed that, unlike many Latin American countries, Taiwan gave up the exercise of political power to create purchasing power through money creation. This renouncement was a part of liberalization movement - a trend toward a more restrained exercise of power. The depoliticizing of economic system in Taiwan implies that "the government gradually learned to be more responsible and open about what it was doing" (Li 1995:239). Li (ibid:240) concludes that "a responsible government means a rejection of the printing press as a source of revenue and an adoption of a more visible taxation system."

8. Li Kuo-Ting as a Private Enterprise Advocate

Li's believed (1995:xi) that the Taiwan government had been guided by an important principle, namely the maintenance of private property and the market environment favouring private enterprises. Private enterprises and foreign trade in Taiwan were encouraged, guided and protected by the state. As Li (ibid:87) claims,

Over the past 30 years, the government has been constantly taking measures to promote the sound development of private enterprises, and it has always encouraged entrepreneurs to be the first to take advantage of the investment opportunities in newly developing industries. Other promotional measures taken by the government included improving the investment climate, simplifying administrative procedures... providing necessary financing through banking institutions, and promoting investment and exports through tax relief and other incentives.

Li (ibid:86) contends that while Taiwan had practised economic development planning for more than two decades, the government had always refrained from direct intervention in private investment. Although in economic planning, the government called for investment projects from the private sector, business people were not forced to participate. They had complete freedom in making their investment decisions. The state economic plans served merely as a guide. Admittedly, the government exercised its fiscal and monetary powers to create a favourable condition to investment, inducing private capital to move in directions that were called for in economic plans and facilitating investments in favoured sectors and industries.

Li's support of private enterprises is not without qualification. Within the framework of the Principle of People's Livelihood,⁸ private property is protected and

⁸ The Constitution of the Republic of China is based on Dr. Sun Yat-Sen's Three Principles of the People: Nationalism, Democracy, and People's Livelihood. The Principle of Nationalism includes not only equal treatment and sovereign international status for the country, but also equality amongst all ethnic groups in the nation. The Principle of Democracy assures every individual the right to political and civil liberties. The Principle of People's Livelihood states that the powers granted to the

price mechanism is regarded as a major instrument for the adjustment of socio-economic activities. However, in some cases, private capital was regulated in the interests of the expansion of state capital. In this way, the Principle of People's Livelihood calls for a planned free economy (ibid:85). Hence, Li's view broadly falls into what Wade (1990) referred to as a "guided market economy".

9. John (James) Cowperthwaite: "The father of Hong Kong's economic boom"⁹

John Cowperthwaite's economic management style is entirely different from Li Kuo-Ting. Cowperthwaite was born in Edinburgh, Scotland on April 25, 1915. He studied Classics at St. Andrews University and Christ's College (Cambridge). He also studied economics after his return to St. Andrew University. He joined the British Colonial Administrative Service in Hong Kong in 1941, but left the island for a post in Sierra Leone during the World War II. After the war, the British established a military government in Hong Kong in September 1945 and export and import resumed in the colony. Cowperthwaite returned to Hong Kong in 1945 and worked in Trade and Economic Affairs Department. Hong Kong was in ruin after the war. In 1951, the colony was described by a visiting American journalist as a dying city (Ho 1992:1). However, it soon recovered after the war and embarked on export-led industrialization in the early 1950s. Cowperthwaite was promoted as the assistant Financial Secretary in 1952. He succeeded Arthur Clarke as the Financial Secretary in 1961, and in charge of Hong Kong's economic management until his retirement in 1971.¹⁰ Under his economic management, Hong Kong experienced rapid industrialization in the 1960s. Between 1961 and 1971, the average income growth rate in real terms was approximately 11 per cent (Ho, 1992: 22) and by 1971, the per

government must ultimately serve the welfare of the people by building a strong and prosperous economy and a fair and just society (http://www.gio.gov.tw/taiwan-website/5-gp/brief/info04_3.html; access 10 September 2005).

⁹ Patrick Crozier regards Cowperthwaite as "the father of Hong Kong's economic boom" (<http://www.croziervision.com/index.php/pct/archives/2006/01/>; accessed on 24 August 2008).

¹⁰ Materials based on <http://en-cowperthwaite.blogspot.com/2007/01/financial-secretary-period.html>; accessed on Dec 17, 2007.

capita income reached HK\$6,096, placing it only behind Japan in the Asia Pacific region (Riedel, 1974: 11).¹¹

10. John Cowperthwaite's Legacy

When Cowperthwaite retired from his position in 1971, Hong Kong had accumulated a reserve of HK\$2.1 billion and the economy grew at 13.8 per cent (with a real growth rate of 8.9 per cent) (Lion Rock Institute 2007). While there were many factors¹² leading to an impressive economic growth of Hong Kong during that period, the contribution of Cowperthwaite to Hong Kong's economic prosperity cannot be denied. In particular, Milton Friedman said, "it would be hard to overestimate the debt Hong Kong owes to Cowperthwaite." More importantly, Cowperthwaite's free market management in Hong Kong contrasts sharply with Mao Zedong's socialism in mainland China in the same period. Distinctive different economic policies and development in these two Chinese economies provide good materials for studying comparative economic systems. Some scholars even claim that Hong Kong would never enjoy more than 30 years of prosperity without the foundation laid by Cowperthwaite (Lion Rock Institute 2007).

11. Cowperthwaite and the Birth of a Pro-business Government

The thinking of a policymaker, though in large extent evolves out of his or her early experience and education, cannot be separated from objective environment he or she lives in. To understand how Cowperthwaite's principles of economic management

¹¹ Sir Phillip Haddon-Cave succeeded him as the Financial Secretary. Following largely the legacy of Cowperthwaite, Hong Kong has further emerged as a major financial centre in the Asia Pacific region. Between 1986 and 1991, the city economy was still growing in real terms at an average annual rate of 6.5 per cent (Chau, 1993: 31). In 1997, the year when Hong Kong's sovereignty was handed over to China, the gross domestic product (GDP) of Hong Kong reached HK\$742,582 million. In 2002, per capita GDP at current market prices amounted to HK\$187,282. After more than three decades of rapid growth, Hong Kong has emerged as one of the richest economies in Asia (Chau, 1993: 1).

¹² For a review of explanations of the early economic success of Hong Kong, see Yu (1997:3-6).

works in Hong Kong, it is required to know historical and political settings of Hong Kong in his time. Britain was the world's economic power after embarking the industrial revolution in mid-18th century. Equipped with advanced military weapons and industrial technologies, Britain explored overseas markets. To penetrate the market in China, the British needed a springboard for Far Eastern trade. They chose Hong Kong which had excellent environmental advantages for trade. It was located at the mouth of the Canton River, leading directly into Canton, the trading centre. It was uniquely endowed with a good natural harbour (Chan 1991:23). As early as 1836, James Matheson, the most significant oriental trader in Great Britain, conceived the acquisition of the Hong Kong Island as a factory for British traders.¹³ In *The Canton Register* (a weekly newspaper), he claimed that "If the lion's paw is to be put down on any part of the south side of China, let it be Hong Kong; let the lion declare it to be under his guarantee a free port, and in ten years it will be the most considerable mart east of the Cape" (Chan 1991:21). The British successfully seized Hong Kong via the Treaty of Nanjing in 1842. The British merchants and officials intended to make Hong Kong as a free entrepot in order to compete with Portuguese Macao. They established Hong Kong as a base for Far Eastern trade. In 1842, Sir Henry Pottinger declared Hong Kong as a free trade port. (Yu 2006:167). So, when Hong Kong was founded 150 years ago by the traders, it remained a city of merchants (Chau 1993: 23). Hong Kong is destined as a city of free trade. The role of Hong Kong government is to cultivate the city for businessmen, if not solely for the British, to seek profits. In other words, Hong Kong government must not work against the interests of private entrepreneurs. It is these political and economic settings that Cowperthwaite entered Hong Kong's civil servant. Furthermore, government officials were appointed, not elected. They had no temptation to court short-term popularity with bread and votes. They could take a longer view in policy decision. It was also possible for some quite unlikely types of people to rise to the positions of great authority. Cowperthwaite's non-interventive economic philosophy would not be possible in any democratic economy and the market will not carry out his principle into full extent unless it is in the unique political situation such as Hong Kong. As Rabushka (1985) remarks, Cowperthwaite "wouldn't have lasted five minutes in a similar post in Britain, since

¹³ Jardines Matheson & Co., founded by James Matheson and William Jardine in 1832, remains one of the most influential 'hongs' (firms) in Hong Kong.

he was not predisposed to compromise any of his principles- only the constitutional structure of Hong Kong allowed him that power.” (Wignall 2005). It was in this historical setting that someone with libertarian beliefs such as Cowperthwaite became one of the most powerful people in the Hong Kong government in the 1960s.

Given the role of the Hong Kong government is to facilitate trade and entrepreneurship in the island, what Cowperthwaite needed to do is to make sure that Hong Kong developed a good free port for business people to trade. His economic policies must be pro-business. The aim of the Hong Kong government is to create an environment for business and entrepreneurs to seek profits. To achieve this goal, firstly, the government ensured that the public sector did not compete with private businesses. This means the size of the public sector was to be kept at minimum. Secondly, the government made every means to establish a stable and excellent environment for enterprises to exchange. Therefore, it maintained laws and orders, social safety nets, provision of public housing, education, water supplies and other public goods. Thirdly, its industrial policies served as a coordinating mechanism and must not choke off entrepreneurial spirits (Yu 2006: 173).

Given the pro-business policy stance, Cowperthwaite, as the financial secretary, could help business people in Hong Kong in two ways: (1) The government could actively embark on economic policies that could benefit merchants. This method can be regarded as ‘directive’.¹⁴ (2) The government could cultivate an environment for business people to do transactions. It could act like a night-watcher whose responsibilities were limited to protecting individuals from coercion, fraud and theft, to requiring reparation to victims, and to defense the country. This method is facilitative. Cowperthwaite took the second route. The practice of the facilitative role of the Hong Kong government in economic development has led many scholars to regard Cowperthwaite as a disciple of laissez-faire economics.¹⁵

12. Cowperwaite’s Principles of Economic Management

¹⁴ Yu (1997:161) differentiates government policy in economic development as into directive and facilitative.

¹⁵ For example, Friedman (2006) says, “Cowperthwaite, who died on Jan. 21 this year, was so famously laissez-faire that he refused to collect economic statistics for fear this would only give government officials an excuse for more meddling.”

Cowperthwaite has been regarded as a classical free thinker in a tradition that extends from Adam Smith to Milton Friedman. In particular, Welsh (1993:460) remarks, “a political economist in the tradition of Gladstone or John Stuart Mill, Sir John personified what might be called the Hong Kong school of economists.” Cowperthwaite’s economic policies were later coined by his successor Sir Philips Haddon-Cave as “Positive Non-interventionism”.¹⁶

12.1 Positive Non-interventionism¹⁷

Cowperwaite believes in little government intervention and money should be let flow freely in the hands of taxpayers. He stated, “money comes here and stays here because it can go if it wants to. Try to hedge it around with prohibitions and it would go and we could not stop it and no more would come.” The government should not compete with the private sector. He said, “when government gets into a business it tends to make it uneconomic for anyone else.” He further maintained, “let money fructify in the pockets of taxpayers. Government should not presume to tell any businessman and industrialist what he should or should not do; attempts to frustrate the operation of market forces will tend to damage the growth rate of the economy” (*Hong Kong Hansard* 1963:51).

He is more confident on the decisions of the general public than the bureaucrats. In his first budget speech (*Hong Kong Hansard* 1961), he stated that “in the long run, the aggregate of the decisions of individual businessmen, exercising individual judgment in a free economy, even if often mistaken, is likely to do less

¹⁶ According to Haddon-Cave, positive non-interventionism “involves taking the view that it is normally futile and damaging to the growth rate of an economy, particularly an open economy, for the Government to attempt to plan the allocation of resources available to the private sector and to frustrate the operation of market forces”. Furthermore, in Haddon-Cave’s view, the word ‘positive’ means that the government carefully considers each possible intervention to examine ‘where the advantage’ lies, although usually it will come to the conclusion that the intervention is harmful rather than beneficial. (http://en.wikipedia.org/wiki/Positive_non-interventionism; retrieved on 2 October 2008).

¹⁷ Unless otherwise stated, all citations on Cowperthwaite’s thinking or speeches are obtained from Lion Lock Institute (2007).

harm than the centralized decisions of a Government; and certainly the harm is likely to be counteracted faster... Over a wide field of our economy it is still the better course to rely on the 19th century's 'hidden hand' than to thrust clumsy bureaucratic fingers into its sensitive mechanism." (see also Rabushka 1985:142). Furthermore, "for us a multiplicity of individual decisions by businessmen and industrialists will still, I am convinced, produce a better and wiser result than a single decision by a Government or by a board with its inevitably limited knowledge of the myriad factors involved, and its inflexibility." This is exactly what Hayek (1945) refers to dispersed knowledge and that central planning is impossible.

Case 1: Hand-off approach to tackle the financial crisis

The 1960s was an economic turbulent decade for Hong Kong. Specifically, the economy encountered bank crisis, currency instability caused by the British Pound devaluation and the riot in 1967. The general public asked the government for help. At that time, Hong Kong accumulated huge reserve and there was an incentive for senior government officials to use public money generously so that the society could remember them. However, Cowperthwaite refused such temptation. He held on to his principle and rejected requests from lawmakers and representatives from industries.

Case 2: Refusal of winner picking

Picking an industry which may possess substantial potential in comparative advantage is a rather prevalent concept in development planning. Cowperthwaite rejected the idea of picking winner. For an instance, a legislative member in Hong Kong once requested the government to use policies to encourage new industries and discourage obsolete industries. Cowperthwaite rejected his suggestion outright. In his view, the government should let the market select the winner. He said, "I must confess my distaste for any proposal to use public funds for the support of selected, and thereby, privileged, industrialists, the more particularly if this is to be based on bureaucratic views of what is good and what is bad by way of industrial development." In his view, "an infant industry, if coddled, tends to remain an infant industry and never grows up or expands." Similarly, in the 1960s, when some business people tried to lobby the government for special treatment in their industries, which they claimed to be crucial to the economy, Cowperthwaite replied that "I should have thought that a desirable industry was, almost by definition, one which

could establish itself and thrive without special assistance in ordinary market conditions.”

Case 3: Rejection of using public funding for special interest groups

As the financial secretary, Cowperthwaite encountered pressure from lobbyists from time to time. In Hong Kong, land is scarce and parking in central business district is a big problem to rich people. Hence, it is not unreasonable for members in the legislative council (which are mostly wealthy groups) to request the government to build car parks at the heart of the small city. Cowperthwaite reacted this request with the same principle that it was a misuse of public funds. To him, if no private firm was willing to build a car park, how could it become the responsibility of the government? He further pointed out that if the affluent groups could afford to own cars, it would be an abuse of public funds to use them to subsidize parking for a rich few. Cowperthwaite estimated that a parking space would cost about HK\$65,000 to construct. This sum of money would be used for providing housing for 115 people (Wignall 2005). In another instance, an executive from a large British firm requested Cowperthwaite to develop merchant banking industry in Hong Kong. He told the executive that merchant bankers in Hong Kong should be the best persons to be asked for.

12.2 On managing the Government budget

On managing government finance, Cowperthwaite acts like a conservative household keeper, rather than a venturing entrepreneur. During Cowperthwaite’s term of employment as the financial secretary, the government budget showed no deficit.¹⁸ His principle for government budgeting is simple and straightforward. The government should only spend within the limits of revenues and fiscal balance. On using deficit budget to tackle economic downturn, Cowperthwaite once claimed, “deficit budget won't work for us under our current economic conditions.” Resources should be kept in the hands of the general public. “I have a keen realization of the importance of not withdrawing capital from the private sector of the economy. ...I am confident, however old-fashioned this may sound, that funds left in the hands of the

¹⁸ Fiscal deficits occur in years 1959-60; 1974-75; 1982-82; 1983-84; 1995-96 and 1998-99.

public will come into the Exchequer with interest at the time in the future when we need them.”

12.3 Resisting the temptation of government intervention

The essence of Cowperthwaite's philosophy is that the individuals are wise enough to make decisions. Policymakers should give individuals sufficient freedom to choose. On doing this, Cowperthwaite spent much of his efforts to overcome pressure from the public and resisted the temptation of planning Hong Kong as a big society. When Cowperthwaite was asked whether he agreed with those who said that the secret of his success was “doing nothing”. He disagreed because he spent much of his time thwarting politicians from London to leave Hong Kong alone (Tupy 2006).

To minimize the temptation of government intervention, Cowperthwaite suggested that the government “should abolish the Office of National Statistics”. He believed statistics would increase the possibility of economic intervention by government officials. This would in turn hinder self-adjustment mechanism in the market. When Cowperthwaite was the Financial Secretary of Hong Kong, British officials came to Hong Kong to find out why data on employment were not being collected. He “literally sent them home on the next plane back” (Singleton 2006).

12.4 Helping the poor through economic growth

On improving income inequality, Cowperthwaite's position is clear. He strongly believed that poverty could only be eliminated through free capitalism. He said, “the only cases where the masses have escaped from grinding poverty. . .the only cases in recorded history, are where they have had capitalism and largely free trade. . .There is no alternative way of improving the lot of the ordinary person that can hold a candle to the productive activities of the free-enterprise system – and productive, creative and energetic people ruled by just law.”¹⁹ In a Legislative Council meeting (*Proceedings of the Hong Kong Legislative Council*, February 1969: 104), his position was clear and strong:

I myself have no doubt in the past tended to appear to many to be more concerned with the creation of wealth than with its distribution. I must confess

¹⁹ <http://www.britsattheirbest.com/002260.php>.; accessed on 25 August 2008.

that there is a degree of truth in this, but to the extent that it is true, it has been because of my conviction that the rapid growth of the economy, and the pressure that comes with it on demand for labour, both produces a rapid and substantial redistribution of income directly of itself and also makes it possible to assist more generously those who are not, from misfortune temporary or permanent sharing in the general advance. The history of the last fifteen years or so demonstrates this conclusively.

13. The Legacies of Two Financial Housekeepers and Common Ground for Two Economic Miracles

As mentioned above, Taiwan and Hong Kong are two economies that gain impressive growth in the post-war period. However, the development policies of two economies are drastically different. In Taiwan, Li Kuo-Ting took directive or state-led growth policies in economic affairs while, in Hong Kong, Cowperthwaite embarked a relatively free market, non-interventive policy in economic management. This phenomenon indicates that economic growth of a nation can take many routes. Depending on historical setting, both government-led or market-led growth policies can be a possible path to economic success. Having said that, we can search for some common grounds for two economic miracles by examining their governments and economic management.

(1) A competent government

A competent government is important for economic growth. It can be said that both governments in Taiwan and Hong Kong during the post-war period were competent and efficient, though they were not entirely free from corruption.

However, two competent governments did not emerge out of luck or coincidence. There were some historical reasons for this phenomenon. Yu, Jeng and Li (2005) argue several environmental and historical factors that compelled Chiang Kai-Shek's administrative officials in Taiwan to be a good government. First of all, Kuomintang leaders experienced profound humiliation in being beaten by what they considered to be only a peasant army. They learned the lesson that a corrupted government would lose public support. To survive, they were willing to correct these

defects.²⁰ Secondly, although the Kuomintang was the sole party government in Taiwan, it had its competition too. After retreating to Taiwan, the Kuomintang needed to compete with its 'twin brother', namely, the Communist (in mainland China). The separation of the Chinese economy, each led by an independent party, formed an effectively, though reluctantly, competitive environment (Mo 1995). In order to survive, the Kuomintang could not afford to lose its last bastion of Taiwan. Thirdly, after retreating to Taiwan, the Kuomintang needed to search for justification for its continued ruling in the island. This is important when the Taiwanese considered the mainlanders as immigrants or even outsiders like the Japanese. One way of gaining continued legitimacy of ruling in Taiwan was to promote economic growth and raise its living standard in the island. This aim is the origin of its 'development state' (Johnson 1982) in Taiwan. Thus, Wade (1990: 337-339) comments that Taiwan evolves out of a serious military threat from outside or from other communal groups in the countries, which raises the prospect of the leaders' demise if they do not assert the state's order throughout the society. In other words, a 'hard state' is required. Unlike democratic societies where public policy decision is heavily influenced by the interest groups, the hard states can ignore private demands without affecting their legitimacy. Hence, Wade (1990: 339) concludes that "in this kind of political regime, the bureaucracy can more easily demonstrate competence and remain 'clean' because it is neither caught between and penetrated by struggling interest groups nor subverted from above by the politics of rulers' survival".

In Hong Kong, as mentioned above, when the British took over Hong Kong as a colony, they intended to make Hong Kong a free port to compete with the Portuguese Macao. So Hong Kong was designated to be built into an efficient port to facilitate international trade. Therefore, the job of the Hong Kong government was to provide a stable and just society for business people to trade. The government should not give any financial burden to the London administration. Hence, this forced the Hong Kong government to keep budget surplus and to live on its own. The principal role of government in the economy, as clearly spelt out in the document, was "to ensure a stable framework in which commerce and industry can function efficiently

²⁰ In particular, Chan and Clark (1992:79) write, "Chiang Kai-Shek and many KMT leaders realized the need for reform in the wake of their humiliation on the mainland (China)".

and effectively with minimum interference. The idea of “prudent fiscal management” originated from the Financial Procedures contained in the Colonial Regulations stipulating the ultimate fiscal principle of self-support and balanced budget. The objective was to ensure that there was no need for the British government to financially support the colony (Lam 2001:50). In short, the Hong Kong government at that time needed to be a competent housekeeper.

Public choice theories remind us that in democratic system, rent-seeking behaviour is a prevalent phenomenon. Political parties and special interest groups often call for government intervention at the expense of public money. Both Taiwan and Hong Kong were “no-party” states (Harris 1977:11) during the miracle age of the 1950s to 1970s. However, both governments were able to resist rent-seeking. Such restraint can only be found in dictatorial no-party government because they don’t need to buy votes from special interest groups. Of course, a dictatorial government may lead to a vampire state.²¹ However, this was not the case in both economies. This might be attributed to the Communist Revolution in China and the Cold War in the 1950s and 1960s.²² During the early stage of industrialization, Taiwan received huge assistance from the United States in forms of aids, grants and loans because Taiwan was the United States’ allies against communist China. Receiving foreign aids from the United States, Chiang’s government ought to behave well if it wanted to continue to receive protection and financial aids from the United States. In Hong Kong, the Communist Revolution in China and Cold War led to the influx of Shanghainese industrialists bringing capitals, entrepreneurial skills and social network to the colony. With a hostile communist government just across the border, entrepreneurs in Hong Kong focused on seeking profit without concerning about politics. As long as entrepreneurs enjoyed a relatively free business environment facilitated by the Hong Kong government and were left alone on their own to seek profit, they would not openly complain against the government. Furthermore, legal or illegal immigrants from mainland China, notably in the periods of the Great Leap Forward and the Cultural Revolution, settled and struggled to survive in Hong Kong. At that time, they were willing to work for long hours without complaint on poor working conditions in

²¹ Therefore, we are willing to accept a democratic system at the cost of voting and rent-seeking.

²² I thank the anonymous referee of this journal to bring out this point to me.

the colony, even though public policy is pro-business. As a result, three parties, namely, government, businesses and labouring class in Hong Kong were willing to live in harmony without making troubles.

(ii) A pragmatic approach in economic management

Both Li and Cowperthwaite were not prophets in economic development. Instead, they managed their economies by trial and error. In this sense, they knew that they had to be very careful. They avoided unrealistic policy or policy based on ideology. They took on pragmatic approach in economic management.

In Taiwan, Li Kuo-Ting believed that an ideology-oriented reform often made timing mistakes because it ignored economic signals or was motivated by goals considered larger than actual well-beings of people. Such timing errors had proven costly economically and disruptive socially and politically (Li 1995: 223). In his view (Li 1995:253), “policy changes caused by change in ideology is... harmful”. Li took an example from agricultural sector. Farm mechanization program launched too early could be as costly as one launched too late. The market mechanism, not ideology, provided the clearest guidance of when mechanization would increase efficiency.

In Hong Kong, Cowperthwaite was described as “a thrifty Scot”²³. He knew that public money came from hardworking people. Therefore, he was very careful in spending public money. Translating this behaviour into fiscal management, budget surplus was always maintained. Commenting on Hong Kong’s public administration and bureaucracy, Harris (1977:73) writes, “Hong Kong’s ‘ideology’ is a strict ‘non-ideology’; its basic credo is that of survival. Its rulers are permanent, practised, anonymous for the most part, and best, impartial. There is a desire to preserve the status quo and not to disturb Hong Kong’s delicate balance of forces. Hong Kong may well be one of the rarest cases of ‘pure administrative state...’”. In short, both public managers in Taiwan and Hong Kong took pragmatic approach in managing their economies.

(iii) A good learner

Unlike China in the late Ch’ing dynasty, which was a poor improver and bad learner (Landes, 1999), governments in Taiwan and Hong Kong exhibited themselves

²³ <http://forums.scout.com/mb.aspx?S=7&F=1405&T=6067307&P=1>; accessed on 8 July, 2010.

as excellent learners. If policies were demonstrably incorrect or inappropriate in the face of changed circumstances, it would be quickly discontinued or reversed (The World Bank 1993:86-87). It is well known that Taiwan had been able to succeed because its policymakers were willing to learn and unlearn. Taiwan's economic success may give us an impression that appropriate policies were deployed. This is true. However, it is more correctly to say that the spirits of pragmatism and experimentation among Taiwan's policymakers were strong and enabled them to replace policies that were not working (Fei 1995:43). Though the right policy was not always adopted, policymakers were willing to try new methods and make changes. Policies that did not work were abandoned. Policies that did work were adopted. A natural selection force is at work (Fei 1995:36). Taiwan's economic 'miracle' has been the result of a long process of government entrepreneurial vision, careful policy planning, experimentation and market selection.

Although Hong Kong embarked on a more liberal economic policy, this should not be construed to mean that the government did not need to do anything. On the contrary, the government learnt to manage a Chinese city since its first day of establishment in Hong Kong in 1843. It aimed to transform the colony into "the Mart of East Asia". In managing Hong Kong, the government encountered and learnt to solve several serious challenges. One of them was corruption. Bribery became rampant in the colony in the 1970s. These activities posted a deleterious effect on administrative efficiency and political economic development. Regarding the seriousness of the problem, the government determined to tackle corruption by establishing Independent Commission Against Corruption (ICAC) in February 1974. At its early days of the implementation of anti-corruption policies, tension was built up between the police force and the ICAC. Punch-ups between ICAC officers and angry policemen were reported. After overcoming the crises²⁴, ICAC effectively eliminated corruption in both public and private sectors. This was particularly beneficial for less well-connected small business owners and foreign businessmen not familiar with the local art of bribery (Chau 1993: 28).

²⁴ The conflict ended with the announcement of a partial amnesty for minor corruptions committed before 1977 (http://sc.icac.org.hk/gb/www.icac.hk/en/services_and_resources/sa/bucpf/index.html; accessed on 12 July 2010).

(iv) A respect for and cooperation with private businesses

Both governments in Taiwan and Hong Kong encouraged private entrepreneurs to exploit their talents. Although the government in Taiwan took on a directive role in economic development, it did not neglect private enterprises. The government formulated a series of policies that encouraged entrepreneurial talents. Under the threat of the Cold War, the government in Taiwan worked closely with the private sectors in order to promote national growth for survival. It paid consistent and coordinated attention to the problems and opportunities of certain industries, based on a long-term perspective (Weiss and Hobson 1995:155-156). In some cases, the government provided industrial assistance to specific industries with export potential and even to specific firms. In other cases, it proposed a project to private firms and, through credit and financial guarantees, encouraged them to proceed. It sometimes even created a small number of interest groups and gave them monopoly rights in return for which they claimed the right to monitor in order to discourage the expression of narrow demand. (Wade 1990:27). Entrepreneurs were virtually guaranteed against nationalisation of their enterprises. The government bureaucrats might be unfamiliar with an industry. For this reason, the government officials in Taiwan were engaged in a policy network with information sources closer to operational level of particular industries. Moreover, interactions between business and government leaders allowed all parties to know expectations each other (Fallows 1994:446). The Ministry of Economic Affairs and Council for Economic Planning and Development (CEPD) was set up to link private enterprises, publicly funded research and service organisations and state banks together (Wade 1990:336).

For Hong Kong case, as mentioned, the original intention for the British to seize Hong Kong was to obtain a trading port in the Far East. Hence, the Hong Kong government has always been pro-business since the first day of its establishment (Yu 2006:163-183). However, such pro-business policies were conducted in very subtle ways. First, the government imposed a very low profit rate to corporations, but the fiscal deficit was made up by the sales of its crown land via auctioning. Secondly, it granted monopoly rights to public utilities companies such as gas, electricity, telecommunications, buses and trams, which were largely owned and operated by British merchants. This policy was in fact a kind of non-monetary benefit transfer which allowed the British to obtain tremendous monetary profits in Hong Kong. Thirdly, the government provided merchants a 'competitive environment' so that they

could exploit profit freely in Hong Kong. Accordingly, it did not intervene the manufacturing industries. There was no minimum wage law, no welfare benefit for labouring class. Business people are free to exploit profit on their own. The government only furnished them with limited amounts of consultancy facilities such as the Hong Kong Productivity Centre and Trade Development Council. These non-intervention economic policies were interpreted as letting entrepreneurs to pick the 'right' industries. It was under such subtle government-business relationship that the economy of Hong Kong cruised into a prosperous journey with unexpected results by all people.

Conclusion

This paper has compared economic management styles of the chief architects of two Asian economic miracles, namely, Li Kuo-Ting of Taiwan and John Cowperthwaite of Hong Kong. It has revealed that the management styles of two financial ministers are drastically different. Li Kuo-Ting took on a state-led approach while Cowperthwaite relied on the free market in resource allocation. However, both economies achieved impressive economic growth during the post-war period. This comparison reveals that there are many paths to economic development. Furthermore, this paper has identified common grounds in economic managements of two architects. Both Taiwan and Hong Kong demonstrated themselves as a competent government. Both governments were good learners and took on a pragmatic approach in economic management. Their economic policies, be 'directive' as the one in Taiwan or 'facilitative' as the one in Hong Kong, showed respect for private businesses. In both economies, the governments had worked with private enterprises to promote economic dynamics. Thus, instead of maintaining an ideological insistence that states should limit their influence on markets, it would be fruitful to investigate the different ways in which governments and markets are interrelated and how government and private businesses can work together to achieve economic growth.

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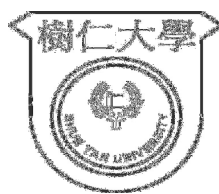
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