Hong Kong's postwar transformation shows how fewer data can sometimes boost growth

The absence of economic statistics may have avoided excessive government intervention, writes Neil Monnery

Kong enjoyed a remarkable period of growth after the Second World War. Its GDP per capita surged from less than a third of its mother country, Britain, to 40 per cent higher today. Many, including Nobel prize winning economist Milton Friedman, put this achievement down to the policy framework devised by Sir John Cowperthwaite which encouraged the entrepreneurship of the local population.

The policies created by John Cowperthwaite and his fellow civil servants were quite different from those being implemented by the home civil service in the UK at the same time. Hong Kong followed a path of low taxation, budget surpluses, free trade and minimal government interference in markets. We know now how successful that policy mix was for Hong Kong, but one of the intriguing aspects of Cowperthwaite's approach was his aversion to collecting economic statistics. His policy mix was not derived from data, because he had none. Instead he argued from first principles.

Milton Friedman visited Hong Kong in the early 1960s and asked Cowperthwaite, who was then Financial Secretary, why he had such limited information about the level of GDP. Friedman later wrote:

"Cowperthwaite explained that he had resisted requests from civil servants to provide such data because he was convinced that once the data was published there would be pressure to use them for government intervention in the economy" (Friedman and Friedman, 1998)

The archives show that a great deal of this pressure was coming from the UK civil service, who were also trying hard to get the Hong Kong government to raise taxes from their low levels. But the local Hong Kong members of the Legislative Council also applied pressure to gather national income data. Cowperthwaite adopted the familiar tactic of appointing an expert to examine the issue. When seven years later in 1969 he was asked why the report had not been completed, he batted this away with the comment that the delay showed "the intractability of the problem." He did not mention his own significant role in making its publication intractable for its long-suffering author.

In a debate in the Legislative Council, he took the unusual position for a finance minister of arguing:

"we have virtually no economic use for national accounts, partly because we cannot be in control of our economy and partly because our economy has a dynamism which outpaces such accounts."

Even Cowperthwaite was eventually persuaded to give some rough, indicative guess at the level of GDP for one single year. But he quickly followed this up with a warning that such figures were "very inexact" and that they "did not have a great deal of meaning, even as a basis of comparison between economies."

He argued that the reason that so many countries collected such data was because their governments were much more involved in the economy, such that:

"high taxation and more or less detailed Government intervention in the economy have made it essential to be able to judge (or to hope to be able to judge) the effect of policies, and of changes in policies, on the economy."

He saw the Hong Kong government as being in the "happy position" of having very little effect on the economy. But even more importantly for him, he did not want policies to be developed to be driven by short-term national accounts targets, worrying:

"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."

Cowperthwaite was well aware of how national accounts data had been used in America by Roosevelt to justify the New Deal, and in the UK by Keynes to justify deficit financing. As Diane Coyle (2014) has noted in her book on the history of GDP:

"The story of GDP since 1940 is also the story of macroeconomics. The availability of national accounts statistics made demand management seem not only feasible but also scientific."

Since Cowperthwaite deplored the way that macro-economics had evolved, it was no surprise that he was not keen to institute a platform of data collection that he felt would lead to mistaken policy. He instead looked back to the economics of Smith, Mill, Ricardo and the like. But even then he was doubtful that economic theory could ever be scientific seeing this as the "twentieth century fallacy that technology can be applied to the conduct of human affairs."

Instead he believed that a good understanding of people, and a trust in markets, combined with a healthy dose of pragmatism, could get you further in devising economic policy than any number of computer models. Even in the pre-spreadsheet and computer model world of the 1950s, 60s and 70s he argued that:

"We suffer a great deal today from the bogus certainties and precisions of the pseudo-sciences which include all the social sciences including economics."

Cowperthwaite's approach was to trust in businesses and markets to do most of the work to raise living standards and prosperity. Only when a market failed, or for public goods, should the government intervene, and when it did it should do so through a very detailed understanding of the economics and trends for that sector specifically. For the bulk of the economy, and for the majority of time, the state's role was to act as a facilitator not as a principal.

There can be no doubt that Cowperthwaite was a very thoughtful man, who spent decades considering how best to bring prosperity to the people of Hong Kong. His aversion to having additional data was not an inability to process it. It was a belief that economic policy should derive from first principles, and a concern about the second order effects of publishing such data. One newspaper obituary recalled how he had once been asked what the key thing that poor countries could do to improve their growth. He replied: "they should abolish the office of national statistics."

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- *This blog post is based on the author's book "Architect of Prosperity: Sir John Cowperthwaite and the making of Hong Kong", launching today, by London Publishing Partnership.*
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June 30th, 2017 | Economics, Neil Monnery | 0 Comments