

**H**ONG KONG may be small in size (only 400 sq. miles) but the activities and achievements of its five million inhabitants provide an ever relevant example for the outside world.

Its success in building a united and prosperous society over the last 25 years and the enormity of its construction programme in housing, water supply, communications and industry, are well documented. The recent opening of the Hong Kong mass transit railway – like the Cross Harbour Tunnel some years ago, designed and largely built by British and Hong Kong enterprise within the budgeted time and cost and likewise scheduled to operate profitably – has added to its outstanding engineering achievements.

But no doubt the main impact which Hong Kong has on the outside world is through its manufactured products. These are traded throughout the world and sell competitively wherever a free market exists.

Hong Kong was chosen by Prof. Milton Friedman to illustrate the first programme of his BBC 2 television series "Free to Choose." With Hong Kong as a backdrop the professor explained how enterprise and hard work combined with free trade and a minimum of government constraint to enable its people to build an economically strong and prosperous society out of nothing – a territory with no natural resources other than a magnificent harbour. But did the professor look deep enough?

Undoubtedly freedom to buy and sell in the markets of the world, freedom from control over the exchange of money, and minimum government interference and regulation, created a climate conducive to productive enterprise. An intelligent and self-reliant people needed no other stimulus. But nothing could have been achieved without a base on which to work – without access to land. In this respect also Hong Kong had something to offer not readily available in many other territories – a land policy which facilitated new enterprise.

**T**HE FREEHOLD of all land in Hong Kong is vested in the Crown (other than that held on long lease from China). Land for private use is sold on Crown leases for various terms of years subject to an annual Crown rent and to specific conditions as to use. Such land cannot be held out of use. Whilst over



● MILTON FRIEDMAN

## ADAM SMITH, RICARDO & THE CASE OF HONG KONG

the years the land held on lease has grown in value, there has always been and continues to be unallocated Crown land waiting to be brought into use.

Thus when the first post-war wave of immigration took place some thirty years ago, large areas of 'new' land were brought into use both for housing and industry. New towns were erected out of steep hillside and salt water estuaries at no cost other than that of formation, reclamation and infrastructure (c.f. new towns in the U.K. and elsewhere where land acquisition costs are of significant proportions and involve much time and effort before any work can start on the site).

Thus in Hong Kong the inhabitants and new arrivals had relatively cheap and ready access to land on which to demonstrate their enterprise and hard work. Land in new towns was set aside for appropriate community needs – roads, reservoirs, power stations, schools, hospitals, recreation grounds, etc. – whilst that allocated for private development for housing, industry and commercial purposes was sold by public auction and leases

subject to minimum planning constraints, limited generally to use and density control in broad terms only. The revenue from the sale of these leases more than repaid the cost of all the works.

Thus the site set aside for public use was obtained at no cost to the general taxpayer and indeed the new town development normally produced a profit at an early stage.

Undoubtedly the availability of land on this basis – the process of building new towns started in the fifties continues today – has contributed greatly to the economic success which Hong Kong represents. Why did Prof. Friedman not make any mention of this?

**B**UT ALL is not as happy as it may appear. Whilst everyone has shared in Hong Kong's growth by increased personal wealth, better education etc., some have fared better than others.

No one would deny the rewards due to enterprise and hard work which clearly vary from individual to individual, but one small group has benefited largely as a result of the efforts of the community as a whole. These are the owners of long leases whose land has risen many times in value.

Unfortunately, whilst Hong Kong land policy has much in its favour, it does not deal equitably with this fundamental issue, but having regard to the circumstances and constraints within which Hong Kong survives it is perhaps unreasonable to expect the government to be able to do anything significant to redress the inequity.

As remaining resources of Crown land dwindle and an ever increasing proportion of wealth production is taken in payment for the right of access to land, will the enterprise and hard work of Hong Kong people continue to provide a sufficient return to meet rising expenditure? Or will a stage be reached when we find the enterprising people of Hong Kong joining together in rigid trade unions and closed shops in a vain endeavour to maintain their standard of living against "unfair" competition?

To date Prof. Friedman has spoken wisely about free trade and private enterprise. But he has justified the primacy of the market place without once mentioning the question of land ownership or the theory of rent. Adam Smith without Ricardo does not provide the answer.

**IAN BARRON reports**