

John Cowperthwaite Was Hong Kong's Beacon Of Freedom

By Doug Rogers – July 11th, 2013

Convictions are often challenged, especially on the way to greatness.

That surely was the case for John Cowperthwaite.

Sir John was the financial secretary of Hong Kong in the critical 1960s — the outset of the British colony's miraculous growth.

He was challenged from all sides regarding his stance on free trade and limited government.

During his tenure, Hong Kong turned into an economic giant.

Cowperthwaite (1915-2006) arrived in Britain's colony on China's south coast after World War II's 1945 end to take up a post in the civil service. In his mid-40s, he came armed with an education steeped in Adam Smith's market-driven economic thought, the conviction of his ideas and a bent toward Gladstonian liberalism.

Standing 6 feet 4 inches, the Scot quickly rose through the ranks and soon butted heads with Hong Kong's lawmakers as well as its overlords in Britain who were pushing Keynesian ideas. He also had to contend with pressure from Maoist communists on China's mainland.

He was up to the task. A forceful if calm debater, he used his wit to turn back attempts to increase government's hand in the economy.

Beating Back The Barrier

"One trouble is that when government gets into a business, it tends to make it uneconomic for anyone else," he told the Hong Kong Legislative Council in February 1963.

He stuck to policies adopted by predecessors working with limited tax revenues and expectation of minimal British financial support.

"(He was) brilliant, well-trained in economics, suffered no fools and was highly principled," Hoover Institution senior fellow Alvin Rabushka wrote in "Value for Money: The Hong Kong

Budgetary Process." "He wouldn't have lasted five minutes in a similar post in Britain, since he was not predisposed to compromise any of his principles — only the constitutional structure of Hong Kong allowed him that power."

Cowperthwaite held the line as Hong Kong rose from a tiny trading port to a light-industrial powerhouse, generating budget surpluses that set social engineers and opportunists salivating.

In resisting the socialist pull, Cowperthwaite secured the Southeast Asian enclave as a bastion of free enterprise, where new ideas could be brought to market quickly and cheaply.

Millions of entrepreneurs, workers and consumers benefited.

And while successive governments have chipped away at the system that's worked so well, Hong Kong still stands as a model of how to get government out of the way of success for the governed.

Hong Kong, now with a population of about 7 million, has the 11th highest GDP per capita in the world — ahead of America — and is involved in a third of capital flow into China.

"Hong Kong, under his guidance, saw a 50% rise in wages and a two-thirds fall in the number of households in acute poverty," wrote radio talk show host Larry Elder last year. "Exports rose by 14% a year as Hong Kong evolved from a trading post to a major regional hub and manufacturing base."

Finding a potent mix of capital-rich industrialists fleeing Shanghai and freedom-seeking laborers from southern China, Cowperthwaite contended that people in post-WWII Hong Kong were progressing nicely and in need of no increased government intervention.

Was the financial secretary lacking in compassion or just lazy?

Neither.

In a budget speech, he said: "In the long run, the aggregate of decisions of individual businessmen, exercising individual judgment in a free economy, even if often mistaken, is less likely to do harm than the centralized decisions of a government, and certainly the harm is likely to be counteracted faster."

Milton Friedman, the Nobel Prize-winning economist, marveled that in the space of four decades Hong Kong's per capita income swung from being a quarter of Britain's to being a third larger than the cradle of the industrial revolution on whose empire the sun had never set.

Cowperthwaite's light hand in shaping policy and the effects it had on Hong Kong's boom can be seen in a few telling instances:

- He oversaw a bureaucracy that whittled the form for starting a company down to a single page.
- He repelled government efforts to gather all but the barest economic statistics, fearing they would be misused, including to try to funnel resources to favored industries. He held that when it came to deploying capital efficiently, policymakers were no match for entrepreneurs with their livelihoods on the line.

Friedman, in his 1998 piece "The Hong Kong Experiment," recalled asking Cowperthwaite why he was so down on government numbers.

The answer: "If I let them compute those statistics, they'll want to use them for planning."

When Whitehall officials flew to Hong Kong to spur the government to generate economic figures, Cowperthwaite refused and sent them home on the next plane.

- He rebuffed all trade tariffs.
- He insisted on low taxes. Government spending was held to 15%-20% of gross domestic product vs. much higher in the U.K. The British government at one point insisted that income taxes be raised in then-colonial Singapore, but when Hong Kong was told to do the same, Cowperthwaite refused.
- A fan of free enterprise, he was against corporate subsidies. When pressed by businessmen for government funds to build a cross-harbor tunnel, Cowperthwaite said no. The tunnel managed to get built with private financing.
- He knocked down efforts to raise the minimum wage, knowing the damage it would do to companies and the ability of citizens to find work. "By stonewalling and procrastinating, he avoided many damaging 'reforms' — such as minimum wage laws. By the time London really put its foot down, the wages in Hong Kong were already high due to the simple free-market process and growth of wealth," said Christian Wignall in a talk he titled "The Champion of Hong Kong's Freedom" at the University of Santa Clara in 2005.
- He was on alert against efforts, in the name of improving social services, that would benefit the middle class more than the working poor.

Responsible

Rabushka had keen insight into Cowperthwaite's character: "True to the ethics of Scottish Protestantism, he hates to spend money — especially if it belongs to someone else (like the taxpayer)."

Rabushka noted in "A Free Market Constitution For Hong Kong: A Blue Print For China," an article in the Cato Journal: "In short, free trade, free markets, low taxes, nonintervention and personal liberty are the hallmarks of Hong Kong's economic success."

Cowperthwaite's views on laissez-faire government weren't the result of radical thinking. Rather, they represented a resurgence of ideas dating back centuries.

Cowperthwaite hailed from Edinburgh. The city's university was home to Adam Smith, whose 1776 book "The Wealth of Nations" is regarded by many as the bible of capitalism. Cowperthwaite was educated at Scotland's University of St. Andrews and at Christ's College in Cambridge, England.

"He had no contemporary examples to point to and that, I think, is what makes him such an extraordinary man," Marian Tupy, a policy analyst with the Cato Institute's Center for Global Liberty & Prosperity and who interviewed Cowperthwaite in 1999, told IBD. "Margaret Thatcher

and Ronald Reagan had the examples of Hong Kong and, in some respects, Chile. Sir John had no such luxury; the whole world was moving toward socialism in the 1950s and 1960s."

Cowperthwaite's reign in Hong Kong ran from 1961 to 1971. When he stepped down as financial secretary, he was 56.

He lived his last 34 years as he preferred — out of the limelight — and died in Dundee, Scotland.