'50pc higher living standards in next decade'

By MALCOLM SURRY,
Financial Editor

The Financial Secretary, Mr Philip Haddon-Cave, believes it is a "reasonable assumption" that the Hongkong economy will grow by at least 6.7 per cent a year over the next decade, bringing an improvement of over 50 per cent in the standard of living.

Mr Haddon-Cave, who was addressing more than 250 delegates at the Financial Times "Asian Business in 1976" seminar at the Hongkong Convention Centre yesterday, gave three reasons to support his projection.

- The influence of the "pause" in the Colony's economy this year and last which has brought zero growth compared with the average 7.7 per cent in the eight years to 1973.
- The fast growing working population – an estimated two per cent a year increase in the population will mean 5.3 million people by 1985, implying a workforce of 2.3 million.
- Manufacturers have no alternative but to increase cost efficiency by investment in up to date plant and machinery to offset the disadvantages of having to buy all their new materials from abroad and ship their finished products to distant markets.

Dealing with the recent slowdown in the Gross Domestic Product dictated by the pause in the economy, the Financial Secretary pointed out that in terms of current prices the GDP per capita in Hongkong was still nearly $8,000 in 1974, coming third in the region after Japan and Singapore and "as a matter of interest represented almost half the GDP per capita in the United Kingdom in 1973."

On Government spending, he said the average annual growth of public expenditure had been 26 per cent over the past five years to total $6,600 million. But this rapid increase was only made possible by a combination of surges in revenues in line with the economy, a once-only switch from a position of budget surplus to one of deficit, and some increases in taxes, fees and charges.

Given the necessarily limited role of borrowing money to balance the Colony's housekeeping budget (although the Government has taken its first steps in that direction this year) recurrent expenditure has to be matched by normal growth in revenue.

And when it was not, said Mr Haddon-Cave: "Pressures for increased public expenditures are likely to be, in effect, pressures for higher taxation."

But higher taxes are a disincentive on effort and investment and the Financial Secretary sees them as counter-productive.

He said: "If public expenditure was allowed to grow for any length of time at a significantly faster rate than that of the Gross Domestic Product there would come a point where resources were being used less profitably in the public sector than they could be in the private sector.

"This would lower the growth rate of the economy which could, in turn, lead to higher internal costs and prices, balance of payments difficulties and thus a slower growth rate still – and this process would begin to happen the sooner, the lower the growth rate of the economy at the time."

Mr Haddon-Cave issued a reminder that public expenditure has recently been growing faster than the economy. In 1974-75 the 30 per cent jump in expenditure, while the economy skidded,

(Cont'd on Page 22 Col 4)

'Living standards up'

(Cont'd from Page 1)

meant the ratio of public spending to the GDP rose to 19½ per cent from the 15½ average ruling in the previous 10 years.

This year, despite the tight rein on Government departments and programmes, the ratio will be over 20 per cent.

Such a pattern could not be allowed to go unchecked because of the consequences to the economy and the taxpayer.

The Financial Secretary produced some guesstimates on Government spending based on his projected growth rate for the economy and the population that would spell out an increase in the GDP per capita at constant (1966) prices of 4.7 per cent over the next 10 years from $4,300 to $6,800.

If the ratio of public spending to the GDP was trimmed to 18 per cent, he said, total expenditure would grow from $4,100 million in 1975-76 to $4,700 million in 1980-81 and $6,500 million in 1985-86.

Returning to the up to date economic picture, Mr Haddon-Cave remarked that "clearly in the short term we are at the mercy of an errant world economy" although some cushioning could come through the strong reserves position of the Government and the Colony's financial institutions.

"How quickly the adjustments to external forces take place depends on a number of factors, and it may be that, with the increasing degree of sophistication of manufacturing processes, and with higher real incomes, the lags are no longer than they were in the 1950s," he said.

The internal cost/price structure has not deflated far enough, or fast enough, in the last 18 months to enable exports to be maintained in the face of weak demand.

But, said the Financial Secretary." It has worked to the extent that no worse than zero growth has been experienced and inflation has been reduced to near zero too.

"The fact is that our extreme dependence on external markets means that the internal cost/price structure has to be flexible downwards as well as upwards and that the economy must adjust to the exchange rate (though not necessarily against any one particular currency) and not the other way round."

The dependence on external trade meant, he said, "the disciplines of the market – bankruptcy and unemployment – must be allowed, deliberately, to operate in the open, and often harsh, environment in which Hongkong finds itself."

Mindful that he was speaking to an international audience, Mr Haddon-Cave did not miss the opportunity to deliver some comments on the trade barriers confronting the Colony's manufacturers.

He conceded that Hongkong would have been "a different and poorer place" without the move away from generally high tariffs in the post-war years to a more liberal order under the General Agreement on Trade and Tariffs, but he stressed that 64 per cent of Hongkong's textile exports are now subject to bilateral or unilateral restraints compared with 32 per cent 10 years ago.

The quota system, he said, "appears to give an artificial advantage to those who have been in the trade longest, and this is the respectable objection to it, not shrill accusations of unfairness. In addition these restraints deflect resources away to less profitable industries, and this is damaging to the economy's growth prospects."