

Hong kong: big market, small government



Nowadays, Hong Kong Government advocates “ big market, small government” policy in order to meet the need of market with minimum intervention and to support and promote economic development. (HKSAR Press Release) However, many people argue that by doing so, government not only shift its responsibility to public, but also encourage private sector to vicious competition, finally lead to increase in unemployment.

One of the criticism of government ownership is based on the fact that the government’s objectives are multiple and fuzzy and can change over time. (Roland 2008) On the other hand, the objective of government ownership may not be profit maximization. For example, if the society has the demand on recreational facilities, no matter the facilities can create benefit for government or not. The government will also provide those services. According to this point, it is good for the society, but the government needs to bear in public affairs for a long time.

According to Donald Tsang, Chief Executive, HKSAR (2006) states that Positive non-intervention was a term used in the past. In the recent years, in order to adapt the rapid change of economic environment and promote economic development, the Hong Kong government prefers to use “ Big Market, Small Government” policy, because it is mainly market control with minimum or no government intervention. Moreover, Financial Secretary Sir Philip Haddon-Cave said in his 1981 Budget, “ the relative size of the public sector in Hong Kong has increased from 16. 2% in 1975 to 21. 2% in 1980” (HKSAR Press Release) The public sector can not increase the community’s resources indefinitely. If the size is continued increase, it will affect the private sector less able to adapt the rapid changes in the world economic

environment. Further, several previous Financial Secretaries support the free market economy with maximum support and minimum intervention. (HKSAR Press Release)

Ho Man-kit, Lion Rock Institute Policy Fellow had written an article criticizing the government on 13 October, 2006 about 2006-07 Policy Address. He said that policy of “ big market, small government” is more obscure than “ Positive non-intervention”, because use large and small to compare the relationship between government and the market, will mislead people about the government size and preparation. He also pointed out that when formulate or revise policies, small government is worse than limited government. It cannot perform policy directly as the objective of it is small intervention.

Michael DeGolyer (2006) pointed out that “ The slogan of ‘ big market, small government’ is meaningless, because small government does not always equate to good or effective government.” To develop the economy, he suggested that suitable intervention should be used, because it can ensure that market dynamics interact without one or the other having a government-conferred artificial advantage or disadvantage. Some market function cannot achieve a socially desired objective, positive non-intervention may be required. For example, the Mandatory Provident Fund was pay-for-itself intervention to forestall demands by retirees on the public purse. (The Standard 2006)

Although government implements “ Big Market, Small Government” policy to encourage the free market economy, it still uses intervention if necessary

when the market economy is over active. For example, the government implemented “ The Capital Investment Entrant Scheme” on 11 March 2003. Under the Scheme, the foreign investors are required to invest at least HK\$6.5 million in permissible investment assets. Permissible investment assets include investments in real estate in Hong Kong and specified financial assets such as Hong Kong equities. (PWC) As the rapid growth of economy in Mainland China, many people use this scheme to immigrate to Hong Kong. Most of them invest in property, thus they bring the property market booming. However, by using the “ Big Market, Small Government” concept, the market depends on supply and demand, so the higher an item’s price, the less demand there will be among customers. (Exforsys) Market will adjust the balance automatically.

As people in Mainland China have a large demand on property investment, in order to adjust the balance in the market, the price of property raises rapidly. However, the demand of people in Mainland China on property market has not decline leads to continue increase in property price. Thus Hong Kong citizens are difficult to buy house. To overcome the problem, Financial Secretary John Tsang increases the additional stamp duty in order to decrease the amount of people speculate in property market. To further combat the property market, the government in 2010-2011 Policy Address has decided to temporarily remove real estate from the investment asset classes under the “ Review of the Capital Investment Entrant Scheme” with effect from 14 October, 2010. Moreover, it increases the threshold of investment for submission to Hong Kong from HK\$6.5 million up to HK\$10 million. According to revise the scheme from 2010, the number of people

participates in Capital Investment Entrant Scheme drop rapidly. (æ~Žå ±)
Although, government advocates “ big market, small government” policy, intervention is needed when the market economy is out of control.

Before 1997, Hong Kong government uses “ Positive non-intervention” policy as an objective, because it has an advantage to support free economic market. In the general situation through this policy, Hong Kong government would not try to plan the allocation of resources in the private sector, and to obstruct the operation of market forces. When it had enough evidence to intervene, the government would deal with it actively. Although the actual conclusion was it would be more beneficial if government did not intervene. (The Standard 2006)

In conclusion, according to the “ The Capital Investment Entrant Scheme”, we can see that the market can use the price to adjust the balance automatically, but it still leads to forming a bubble in the property market. If a market without any intervention, it will be out of control. Of course, different situation will take differernt level of intervention. Although there are many advantage in privatization, with rule to control the market is necessary, thus privatization with suitable intervention is possible way to support the free economy market. And this may be the best way to overcome the problem of privatization and government ownership.