VALUE FOR MONEY
The Hong Kong Budgetary Process
Alvin Rabushka
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ALVIN RABUSHKA

A clear and graphic examination of the men who govern Hong Kong takes the reader from a historical perspective to the colony's present unique standing as a financially successful industrial society in a world of inflation and recession.

More than four million people live in this British colony, most of them in thirteen square miles of which half is residential and a tenth industrial. Yet the crowded community has the industrial world's lowest-taxed, least-regulated economy, and its administrators operate on a policy of fiscal responsibility, despite a lack of natural resources. The colony is completely autonomous, and operates with a philosophy of law and order, nonintervention in the private sector, and a balanced budget, resulting in an environment conducive to profitable investment with minimum interference in private affairs and full freedom for economic enterprise.

Little protection and few subsidies are provided to industry and the few direct government services function on a commercial basis. The private sector and the market mechanism are responsible for public utilities and transport; official intervention or regulation are occasioned only by Hong Kong's peculiar political and economic geography. Its free money market attracts funds to help finance industrial development.

The budget policy is original; sustained or systematic deficits are avoided, and accumulated reserves permit government expenditure over a long recession without serious cutbacks and earn interest to meet recurrent expenses.

This study of policy-making and budgeting belies the allegation that the Hong Kong government discourages scholarly research into its activities. Sources of information are published and unpublished papers and statistics on budgetary allocations. Most important are the first interviews ever completed with a cross-section of Hong Kong's entire administrative leadership.
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For Louisa
The Financial Secretary, Philip Haddon-Cave, reads the annual Budget Address as the Governor, Sir Murray MacLehose, watches. (Reprinted with permission of the Government Information Services.)

The Financial Secretary, Philip Haddon-Cave, presents the annual budget to the Hong Kong Legislative Council. (Reprinted with permission of the Government Information Services.)
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This book is about Hong Kong's budgetary process—its politics, as well as the incentives, constraints, and ideological commitments that encourage its unique fiscal and economic responsibility. The first chapter considers certain special features of the colonial government in Hong Kong, the international environment in which Hong Kong flourishes, and previews the peculiarities of Hong Kong's anomalous practice of public finance. Subsequent chapters examine the historical precedents of financial administration in Hong Kong, the constitutional foundations of its practice, the philosophy of balanced budgets and nonintervention, strategic considerations in the preparation of the annual budget and the actual patterns of underspending by department between 1963 and 1973, and a recent effort to reorganize the structure of government.

The book is based, in part, on published and unpublished statistics on budgetary allocations, a range of unpublished government papers, and official papers published in *Hong Kong Hansard* (the record of Legislative Council proceedings); in part, on interviews with a cross-section of Hong Kong's administrative leadership, including many heads of departments, most branch heads in the Secretariat, and approximately half of the unofficial members of the colony's Legislative Council. I have tried to reconstruct the style, philosophy, and practice of budgeting back to the mid-1950s, but I concentrate chiefly on the decade of the 1960s and early 1970s. Throughout the book the interviews are reported in unattributable form to the best of my verbatim recall abilities.

The whole question of research into government and politics in Hong Kong has been the subject of much critical—indeed, hostile—discussion in Hong Kong but has received little genuine practice. Both the expatriate and resident academic community of the colony promote a wide belief that the Hong Kong government discourages scholarly investigation into its activities. One Chinese
student in Hong Kong decided not to attempt any interviews with government officials as part of his research for an advanced degree, on the supposition that his requests would be summarily denied. European scholars hold the same views, though some note a possible recent change in government's receptivity to scholarly study. But these beliefs have given rise to a self-fulfilling prophecy: the belief that government will not allow itself to be analyzed leads scholars to avoid undertaking political research, which leads in turn to the conclusion that political research is infeasible in Hong Kong.

I explored this question in the course of my interviews. Why was it, I asked, that so little social science research is carried out in Hong Kong and why, moreover, the little research completed there almost invariably omits interviews with civil servants? The answer given by almost every one of my respondents was "No one has ever asked to interview me!"

My experience belies these widespread beliefs. Between September and December 1973 I completed approximately fifty interviews with leading figures in the Hong Kong government. Only three civil servants refused an interview, but none of these was crucial to the research design; no one, save these three, refused an interview within a few days of my calling. Several, after the interviews were completed, expressed gratitude that a scholar had sought their views on the subject of financial administration in Hong Kong. The majority spoke candidly under promise of anonymity, most noting that this was their first interview with a scholar engaged in academic research about Hong Kong.

These interviews are, to the best of my knowledge, the first attempt by a social scientist to systematically interview the Hong Kong leadership while researching on Hong Kong. Time alone limited the number of interviews; another four months would have permitted interviews with the uncontacted department heads and unofficials. In addition, several members in government went out of their way to supply, at my request, information on budgeting and administration. Although some of this material is produced by the government printer for official, even restricted, purposes, it was invariably given to me without charge. Again, no scholar had ever asked for the use of this material, and there were thus no guidelines to fix charges.
The research for this book was made possible by a grant from the Hoover Institution on War, Revolution and Peace of Stanford University. For both his financial support and unflagging encouragement I want to thank Dr. W. Glenn Campbell, Director of the Hoover Institution. The Institution previously financed a stopover in Hong Kong in December 1971, supported a lengthier stay in the summer of 1972 when I gathered materials to write *The Changing Face of Hong Kong*, and provided a semester’s leave from teaching duties in the fall of 1973 when the research for this book was conducted. I am grateful for this sequence of support.

For assistance during my research in Hong Kong I want to thank each of the fifty government officials who took time from his busy schedule to answer my questions and provide several published and unpublished government papers. Professor Peter B. Harris of the University of Hong Kong deserves a special note of thanks. Not only did he assist me with housing, arrange for the use of an office at the University, and offer helpful insights into the workings of the Hong Kong government, but he generally contributed to our extremely enjoyable stay in Hong Kong. Professor Henry J. Lethbridge, also of the University of Hong Kong, listened and responded to many of my ideas about Hong Kong as we walked on the conduit path between the University and its Pokfulam Road residential flats on Monday afternoons.

Careful readings of various drafts of the manuscript and helpful comments were given by Professor Aaron Wildavsky and Sir John Cowperthwaite. Sir John Cowperthwaite, in particular, made my life miserable but my book better, by correcting numerous matters of fact on both prewar and postwar topics. Of course, all conclusions, interpretations, and opinions remain my own, and Sir John and I are still in disagreement on a number of these.

For enduring the typing of three drafts of the manuscript, my thanks to Janice Brown. For assistance with the analysis of departmental underspending and for running interference with the computer, I thank Richard Smith. For editorial assistance, I thank Barbara Roos. I also want to thank the Hong Kong Government Information Services for its help in preparing the design of the book’s cover.

In 1973 the Hoover Institution Press published my earlier book,
Race and Politics in Urban Malaya. My wife, Louisa, had helped me code and keypunch 750 interviews completed in Malaya’s two largest cities in 1967. Though it is hard to believe, I nonetheless omitted an acknowledgment to her assistance in that book. That omission has been a bone of domestic contention since early 1973. Dare I forget her a second time? Her ability to withstand the harassment of two small children for four months in Hong Kong enabled me to complete my research in an environment that is second to none for sheer enjoyment of life and work. For her professional help in Malaya and for being such a nice person in Hong Kong, I now absolve myself from past guilt with a hearty ‘‘Thank you, Louisa!’’ I appropriately dedicate this book to her.

Rochester, New York
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Alvin Rabushka
A Portrait of Responsibility

Hong Kong—the last jewel in the British imperial crown—provides the setting for the overwhelming majority of Her Majesty’s colonial subjects, which now are otherwise represented in a few offshore islands and mainland border communities. While Hong Kong remains a colonial society, it simultaneously holds complete financial autonomy and depends for its survival on the economic benefit it confers upon its immediate neighbor—China.

Although political geography bestows anomalous status upon this robust industrial colony, the retention of a genuine colonial government is even more of a twentieth-century idiosyncracy. It is idiosyncratic in its observance of complete financial responsibility and economic sensibility. It is anomalous in its adherence to the concept of balanced budgets. It is also anomalous in its policy of nonintervention in the private sector. It is, in short, a Gladstonian paradise.

Colonial Government in Hong Kong

Hong Kong possesses a modern Western government—modern in the technical sense of bureaucratic administration, not in the sense of representative democracy—that rules 4.2 million subjects, 98 percent of whom are Chinese. It can perhaps be best classified as a “no-party administrative state” governed at the highest levels by civil servants appointed from overseas. The only elected body is the relatively unimportant Urban Council, which manages a number of municipal services. Regulations of administrative procedure play a greater role in the bureaucratic machinery of day-to-day decision making than do constituency pressures of any sort. Because he is free from the electoral pressures typical of Western democratic
systems, the man who directs Hong Kong's public finances—the Financial Secretary—can carry out sustained responsible fiscal administration. He is responsible in law to the Governor of Hong Kong, in conscience to his principles and to the economic welfare of the people of Hong Kong.

Although over 100,000 persons comprise Hong Kong's civil service, the upper levels hold only a small collection of administrative and professional officers. The chief personnel are the Governor, about forty heads of government departments, the ten or so key branch heads within the Colonial Secretariat (the central organ of government), and a few leading businessmen. According to one of Hong Kong's most distinguished civil servants:

In Hong Kong, one knows what every department and high-ranking person in government is thinking about. You are right on top of things. Hong Kong is a small place in which everyone knows everybody else, though when you leave government, it is easy to lose touch very quickly.

He continued:

Hong Kong's government is small and highly centralized. You can put together all the important officials in Hong Kong within twenty minutes. Democracy is inefficient and unsuited for today's complex society.

Several other high-ranking officials stressed the efficiency of government operations due to small size and the consequent first-name basis of doing business.

In this highly centralized, compact government, personality takes on a major role; its importance was stressed in thirty of the first thirty-one interviews I completed during the fall of 1973. Two remarks give a sample of the often-repeated ascendancy of personality: "Regardless of the structure of government, personality is very important in getting what you want," and "The relative strength of the different departments in the Secretariat is a matter of personalities."

Why is this government so highly personalized? The reason is that (apart from the Judiciary) all lawful power lies with the Governor;
none of his staff has specific constitutional power or authority. Personality attributes thus affect the balance of actual authority between high-ranking subordinates as they run the administrative machinery of government. My respondents repeatedly stressed the character of Hong Kong’s Financial Secretaries, who dominate the economic dimension of public life.

An Overview of Public Finance

Although Hong Kong is by law a crown colony, its economic behavior resembles that of an independent state. Apart from a portion of the cost of defense, Britain supplies virtually no economic aid to Hong Kong; it speaks for the colony in foreign relations, although the Hong Kong government negotiates many of its own trade arrangements. Hong Kong does not require approval for its public spending from the Foreign and Commonwealth Office. Its financial independence from Britain is established to such an extent that in 1973 it awarded a US$1 billion contract for an underground mass transit scheme to a Japanese firm instead of to the British firm that bid for the job. Nor do the Chinese authorities in Canton or Peking dictate the financial decisions of government in Hong Kong. Hong Kong is thus a genuine anomaly in the sense of being simultaneously independent and yet a colony.

This unique constitutional position enables the government to practice fiscal integrity. Until the Colonial Office granted financial independence in 1958, Hong Kong’s Governors and Financial Secretaries labored under the watchful eyes of the Secretary of State, who was responsible for enforcing Her Majesty’s colonial regulations. These regulations encouraged each successive Governor and, since 1937, each successive Financial Secretary to practice financial integrity, a tradition which has remained intact. With financial independence, Hong Kong has continued to be fiscally sound, even as London (along with a host of former dependent territories) has lapsed into financial profligacy.

Accompanying the doctrine of self-support are principles of free trade and minimum intervention in, or regulation of, the private sector. Hong Kong is thus the industrial world’s least regulated and
lowest taxed economy.

These circumstances are reflected in the colony's present-day public finances. In sharp contrast to countries in which overspending, deficit financing, extensive use of loan finance, governmental control over the economy, and political instability are the rule, Hong Kong's financial life displays the following characteristics:

(1) The practice and policy of balanced budgets;
(2) The maintenance of fiscal reserves, which have historically ranged from one-half to one year's expenditure;
(3) The almost complete avoidance of any public debt;
(4) Habitual underspending by government departments;
(5) Conservative revenue estimating;
(6) A widespread economy ethic throughout government;
(7) The absence of inflated requesting in the budgetary process;
(8) A general aversion to central planning and, until 1971, disregard for preparing national accounts statistics;¹
(9) An average ten-year tenure of office for each Financial Secretary, which creates a climate of stability.

If these characteristics appear utopian, it is only because we have become accustomed to the universal practice of fiscal irresponsibility.

*The International Environment*

A singular combination of circumstances in Hong Kong has brought about prosperity without much internal pressure for the welfare state or much outside intervention, which might have closed down this haven of economic freedom. How has this come about?

Hong Kong offers more than most residents in the colony could expect to receive elsewhere. Refugees from mainland China have found physical security and an opportunity for economic improvement. They do not clamor for more state intervention in their personal lives; many of them fled what they regard as repressive Communist rule precisely for the freedom offered by Hong Kong's noninterventionist society. The middle class has, on the whole,
enjoyed prosperity in a booming private sector. Local and overseas investors continue to benefit from the low taxes and economic freedom that cannot be found in other Asian countries.

In turn, a prosperous free-trading and financial center populated largely by persons of Chinese origin, who constitute a ready-made export market for the Chinese mainland, has served the economic interest of the Communist government in Peking. Finally, entrepreneurs from the United Kingdom and other countries benefit from commerce in Hong Kong.

The Colony and Its People

The British Crown Colony of Hong Kong lies inside the tropics on the southeast coast of China, adjoining the province of Kwangtung. It consists of a small part of the Chinese mainland and a scattering of offshore islands, the most important of which is Hong Kong Island. The twin cities of Victoria (on Hong Kong Island) and Kowloon (on the peninsula directly facing Victoria), which overlook Hong Kong’s magnificent natural harbor, are about ninety miles southeast of Canton and forty miles east of Portuguese Macao. Including recent reclamations, the total land area of the colony is 403.7 square miles, of which Hong Kong Island together with a number of small adjacent islands comprise 29.2 square miles. Kowloon and Stonecutter’s Island comprise another 4.1 square miles. The New Territories, which consist of part of the mainland and more than 230 offshore islands, have a total area of 370.4 square miles.

Of the 403.7 square miles in the colony, only 13 percent is used for farming; 76 percent is marginal unproductive land. Within the remaining 11 percent (45.7 square miles), most of Hong Kong’s people live and work in sixteen thousand acres (twenty-five square miles) of extensively built-up areas. The 1961 census revealed that 80 percent of Hong Kong’s over three million residents lived in approximately eight thousand acres (thirteen square miles), of which half was residential and a tenth was industrial. Not much has changed, in terms of density.

Now more than four million people live within Hong Kong’s 403.7 square miles. Of these, over 98 percent can be described as Chinese
on the basis of language and place of origin, of which, in turn, 55 percent were born and have lived their whole lives in Hong Kong. Of the remaining sixty-seven thousand, two-thirds originate from Commonwealth countries outside Hong Kong, chiefly the United Kingdom; many of these work in the civil service. Non-Commonwealth persons include about six thousand Americans and small communities of Japanese, Filipinos, Indonesians, Portuguese, Germans, Dutch, Koreans, and French.

Throughout its history Hong Kong has willingly accepted political refugees. Several hundred thousand entered Hong Kong in the 1930s during the Sino-Japanese War. Then the Japanese forcibly deported large numbers of Chinese to China during the World War II occupation of Hong Kong, in order to ease the local food problems. Four years of Japanese rule reduced the population of Hong Kong to about one-third of its prewar size of 1.8 million. But after Hong Kong’s liberation from the Japanese in 1945, the deported Chinese returned at a rate approaching one hundred thousand a month; by the end of 1947, the population had regained its prewar size. Still another influx took place during the Chinese civil war of 1948 and 1949, when nearly a half million people, mainly from Kwangtung province, Shanghai, and other commercial centers, entered the colony. Thus aside from returning residents, immigrants increased the population between 1945 and 1956 by around one million, of which some seven hundred thousand were refugees.

The Hong Kong resident, unlike the American, Englishman, Scotsman, Frenchman, Italian, or Russian, has no colloquial national designation. He is not called a Hong Kongite or Hong Kongan, but is simply a Hong Kong resident or Hong Kong-born (such designations are less awkward in Chinese). Little exists in the way of community-consciousness or nation-consciousness. Hong Kong Chinese regard themselves as Chinese, period. They have historically shown little interest in Hong Kong politics, since they have no tradition of active political participation; and since especially the elderly were refugees they consider the politics of the homeland to be of overriding importance.

Approximately four hundred thousand persons were eligible to register for the voters’ list for the March 1973 Urban Council elections, but only 31,384 did so. Of these, only 8,765 bothered to vote—28 percent of the registered electorate and barely 2 percent of
the eligible electorate. Though Urban Council deliberations are removed from the major issues in Hong Kong politics, this election nonetheless demonstrates widespread political disinterest.

Economic Realities

Manufacturing industries are today the mainstay of Hong Kong's economy. Export-oriented light manufacturing industries and a myriad of servicing industries operate within a free-port, free-enterprise environment. Highly developed banking, insurance, and shipping systems inherited from the entrepôt era have facilitated and promoted the development of manufacturing industries. Following its entrepôt traditions, Hong Kong has no tariffs and few restrictions on the import of commercial goods. Its establishment as a vigorous industrial power—90 percent of manufacturing output is exported—has placed it ninth in the world in the volume of trade per capita and eighteenth in absolute terms (there are eighty-five recognizable countries, all with larger populations). Hong Kong has achieved this enviable record without recourse to outside economic assistance, despite formidable obstacles arising from political circumstances beyond local control.

The economy is open at both ends. Approximately 90 percent of Hong Kong's manufactured goods are exported and the overwhelming bulk of its foodstuffs and consumer goods are imported. It has little control over restrictions or quotas that other nations may implement against its goods, nor over embargoes which may restrict both importing and exporting. This open structure restricts the range of possible government economic intervention—the government can do little to alter the cost-price structure of exports or imports to the benefit of Hong Kong. Nonintervention has been, and remains, most conducive to economic efficiency.

The Chinese Connection

The history of Hong Kong is in some ways a chronicle of rising and falling trends of trade and population, in response to events taking place in China. Hong Kong's rapid population increase be-
between 1945 and 1956, for instance, was largely attributable to a massive exodus from China of refugees who sought freedom and asylum in Hong Kong. Industrialization in Hong Kong is directly attributable to the inflow of a large labor force plus industrial know-how and capital from China during turbulence of 1949 and 1950.

Most of Hong Kong’s territory is leased from China. The New Territories were signed over to Britain in 1898 on a ninety-nine-year lease. Earlier treaties had ceded Hong Kong Island, Kowloon, and Stonecutter’s Island to Britain in perpetuity, but these territories are not politically or economically viable as a separate unit. Without water and industry, which are located mainly in the New Territories, the foundation of Hong Kong’s economic prosperity would disappear.

The post-1949 Communist government in Peking has renounced the “unequal treaties” that constitute Britain’s claim to sovereignty in Hong Kong, clearly stating for the United Nations Special Committee on Colonialism and Decolonization that the settlement of Hong Kong’s political status is an internal Chinese matter; it does not fall within the category of colonial territories. The landlord has thus publicly denounced as invalid both the New Territories lease and the earlier cessions of territory, all the while acknowledging colonial authority in Hong Kong.

Until China chooses to renegotiate with Britain, Hong Kong survives on China’s tolerance and trade gains. China seeks foreign exchange. Since the mid-1960s, receipts from Hong Kong are believed to have run annually in the hundreds of millions of dollars and to have accounted for some 40 percent of China’s total earnings of foreign exchange. Much of this is earned by the sale of water, food, and other basic necessities to the colony.

China’s balance-of-payments surplus with Hong Kong facilitates China’s developmental policies. In 1973, for example, Hong Kong imported HK$5,634 million worth of goods and services from China and exported, in return, only HK$271 million. Eighty branches of twelve Communist banks in Hong Kong channeled an estimated US$1,300 million worth of funds to Peking that year—nearly 40 percent of China’s total foreign exchange earnings. These funds assisted the Chinese in 1973 when they imported some US$689.6
million worth of goods from the United States, exporting, in return, only US$64.9 millions.¹ (In 1973 US$1 was equal to about HK$5.)

China’s special relationship is predominantly economic. Ideological consistency dictates that Hong Kong, as a dependent territory of a sovereign foreign power on Chinese soil, should not exist at all (a point on which the Russians frequently taunt Peking). But if the Chinese cannot find or create alternate sources of income, Hong Kong may survive as it is well into or through the twenty-first century. In Peking’s official view, 1997 has neither more nor less significance than 1977 or 2017. Nonetheless, political developments in Peking, not in Hong Kong, will probably determine any ultimate decisions on the colony’s political status.

The Mother Country

Hong Kong became a British possession in 1841 for the purpose of trade with China; it prospered as a free-port trading post specifically because it offered security and freedom from interference with trade. The early inhabitants, especially the Chinese, had little or no interest in politics; the colonial government, mainly concerned with providing a framework within which trade could flourish, did little more than maintain law and order and raise taxes to pay for the cost of the civil establishment and necessary public works.

Has the United Kingdom government benefited in any way from the reestablishment of colonial government in 1945, apart from the economic opportunities that British investors, along with other nationals, have pursued in Hong Kong? It is commonly, and mistakenly, believed that the Hong Kong government budgets for an annual surplus to remit funds to the mother country—a transfer of wealth from the Hong Kong taxpayer to the United Kingdom Exchequer, frequently alleged to be the profit or price of colonial rule. The colony has maintained large reserves in the United Kingdom, which have, at times, been equivalent to between one-quarter to one-third of Britain’s total gold and foreign exchange reserves. Maintenance of Hong Kong’s reserve assets in sterling constitutes an external source of support for the pound that would, if significantly and
quickly diversified into other currencies, further weaken the pound in Britain’s overall trading and balance-of-payments accounts and in the process reduce the value of Hong Kong’s sterling assets.

How did this situation arise? Hong Kong, as a dependent territory of the Crown, was required in practice to keep its official reserves, and the greater part of the reserves of the banking system, in the form of sterling. By 1968, sterling devaluations, with consequent losses in the value of Hong Kong’s reserves, necessitated a new arrangement. In view of her own depleted reserves, Britain was neither willing nor able to allow any significant diversification of Hong Kong’s sterling assets (amounting to 350 million pounds) into other currencies. Instead, the mother country offered a five-year guarantee (at a rate of US$2.40 to one pound) of all officially held sterling in excess of 10 percent of Hong Kong’s official external reserves, in return for its undertaking to maintain 99 percent of its reserves in sterling. This proportion was reduced to 89 percent in 1971. When the guarantee ended in 1973, the British government made a unilateral offer for a further guarantee for a period of six months, but in 1974 a British minibudget terminated the guarantee arrangements altogether. Now whether Hong Kong diversifies into other currencies depends chiefly on the comparative rates of interest it can earn elsewhere and the comparative security of other currencies. Thus Hong Kong reserves no longer constitute a benefit for the mother country.

Also in 1974, the British government announced that some of its ten thousand soldiers stationed in Hong Kong would be withdrawn as part of a military manpower reduction and that it would ask the colony’s government to pay an increased share of the cost of the remaining troops. What, then, are the motives for continued British presence in Hong Kong?

This is a difficult question to answer. What does a tenant do when his landlord renounces the lease? Withdraw from his responsibilities? The colonial government is still the sole duly constituted authority of the territory, whose residents clearly prefer British colonial rule to any of their available alternatives. Independence is not a feasible option because of China’s control over the political status of Hong Kong. Nor has Her Majesty’s Government publicly disclosed its intentions on the colony’s political future; it still offi-
cially acknowledges the lease date but avoids public discussion of it. Thus the tenant lives as if the lease were operative, and this convergence of conditions and events allows the Hong Kong government to follow responsible fiscal and economic policies, free from internal pressures for a welfare state and external pressures for subordination.
The Development of Financial Procedure

In spending only what it can afford, the Hong Kong government is, by worldwide standards, unique. Except for a small number of tropical paradise tax havens, no other government so intently holds expenditure within means. Its standard rate of tax on earnings and profits is the lowest in the industrial world, and its official government reserves are the largest in proportion to any year's expenditure. It can do this because of its colonial status, which frees public officials from the demands and interests of politically active citizens and candidates—demands which often stretch public expenditure beyond public means.

Although Britain first occupied Hong Kong in January 1841, in the wake of the Opium War with China, a colonial administration was not officially set up until the Nanking Treaty was ratified on 26 June 1843. Very soon thereafter, the colony began to play an influential role in China trade and attracted a substantial multiracial community of foreign traders. But the opium trade also gave rise to an unruly community of residents and to crime. The first urgent problem of the Hong Kong government, then, was to maintain law and order and protect persons and property.

Lord Stanley, Secretary of State for War and the Colonies during this period (1841-45), wrote Hong Kong's first Governor, Sir Henry Pottinger, that the function and purpose of Hong Kong was to serve as a diplomatic, commercial, and military post. Pottinger was instructed on three accounts: (1) to negotiate with the Chinese emperor; (2) to superintend the trade of British subjects in China; and (3) to regulate the internal trade of the settlement. The specific constitutional arrangements drawn up for Hong Kong reflected the special conditions of British activity in the Far East, where a great
degree of central control would prove advantageous. Hong Kong was, at the outset, a barren island with no large or established community entitled to political representation. It was essentially a military, diplomatic, and trading station, not a settlement in the normal sense, and strategic empire considerations demanded firm imperial control.

Administrative absolutism meant, in practice, that the colonial government did little more than maintain law and order—and raise taxes to pay for the cost of the civil establishment and necessary public works. To Sir John Davis, the colony’s second Governor, fell the task of organizing Hong Kong’s public finances. An early proposal to tax imported wines and spirits met with the unanimous opposition of the local Legislative Council, whose members said that such a tax would be contrary to Hong Kong’s free-port doctrine. Hong Kong’s affluent inhabitants were alarmed at the thought that the Governor was hurrying toward premature financial self-sufficiency at the bidding of the United Kingdom Colonial Office. They foresaw who would bear the brunt of taxation. Although Gladstone, then Secretary of State (1845–46), disallowed the wine and spirits tax, Davis raised revenue by creating monopolies and farms and levying rates on property for police and other municipal services.

Merchant opposition at that time set a precedent which applies today with equal force whenever new or increased taxes are proposed. In a memorandum dated 18 August 1845 and presented to the Secretary of State, local merchants complained of the Governor’s revenue measures, condemned as unconstitutional an ordinance to impose rates on property, and called for a form of municipal self-government through which they could resist his financial impositions. They also asked the home government to subsidize colonial expenses, since Hong Kong was held, by admission of the Secretary of State, for imperial interests connected with the whole of the China trade and not for colonial interests alone.

Although the merchants found a sympathetic ear in the 1847 Select Committee appointed by the British to investigate questions of taxation and local representation, they won little financial relief. Hong Kong continued to verge toward financial self-sufficiency, and in 1854 the British parliament paid the salaries of only three principal
officers in the colonial government, instructing the Governor to defray from colonial resources the whole remaining expenditure of the colony. In 1855 Sir John Bowring, the Governor, happily announced that Hong Kong had reached the goal of complete self-support. Although on occasion future Governors sought assistance from the home government, the doctrine and practice of self-support was entrenched in Hong Kong financial procedure.

Colonial Regulations

Hong Kong, as a Crown Colony, was administered under the colonial regulations, known in full as the "Rules and Regulations for Her (or His) Majesty's Colonial Service." The colonial regulations date back to 1837 and serve as "directions to Governors for general guidance given by the Crown through the Secretary of State for the Colonies," especially in financial and administrative matters. The detail in these instructions vividly demonstrates that Governors and their officials were not considered free agents of the United Kingdom government.

Colonial regulations call for the Secretary of State to fill all important vacancies in the colonial services and to maintain disciplinary control over these appointments, even though the colonial governments employ and pay most of them. By design and in effect, the Secretary of State was the headquarters of the colonial public service.

He had strict control over public finance, also. The annual estimates of each colony required his approval well before the beginning of the financial year. The colonial regulations specified expenditure of approved funds, clarified how and when variations in the approved estimates could be allowed, and instructed local officials on the submission and auditing of public accounts. Salaries could be altered only with the approval of the Secretary of State; he even examined the estimates and accounts of affluent colonies which supported themselves and thus were not subject to Treasury control. In a nutshell, the Colonial Office had a duty to see that colonies did not run into debt and impose a charge on the British Treasury.
Colonial Office policy and the colonial regulations which applied to Hong Kong visibly reflect the prevalent economic theories of nineteenth-century Britain, which stressed the passive role of government in the economy. Private individuals and companies, not the government, were held responsible for the creation of wealth. A questioning House of Commons forced the Chancellor of the Exchequer to defend every expenditure or increase in taxation. Treasury officials therefore concentrated on minimizing government expenditure and shied away from the economic planning so prevalent among governments in today's world. Colonial Office officials frequently complained throughout the nineteenth century that the Treasury used its financial control to dictate colonial policy.

Around 1870, colonial expenditures were no longer watched by the Treasury, but Colonial Office approval was still required until the 1930s, when convention began to replace the letter of the regulations and the estimates were no longer submitted to the Secretary of State before presentation to the local legislature. Instead, he could use powers of disallowance if he thought that a colony's spending plans would cause recourse to the United Kingdom Exchequer.

1843 Regulations

In 1843, when Hong Kong became an official Crown Colony, London issued an updated edition of the original colonial regulations, which for the first time listed Hong Kong as the most recently acquired possession to which the regulations were applicable. Several chapters of the regulations spell out the philosophy and procedure of colonial administration: Chapter VII, the Financial and Other Returns; Chapter IX, Custody of Public Monies; and Chapter X, Expenditure of Public Money. Chapter VII, for example, begins on a warning note:

Her Majesty's Government attach the highest importance to the regular and punctual transmission of the following RETURNS; and Governors are desired to impress upon those officers, whose duty it may be to prepare them, that any remissness or neglect in this respect will be visited with the marked displeasure of Her Majesty's Government.
The returns encompassed statements of colonial revenues and receipts; disbursements of civil charges authorized by the home government or the local legislature; disbursements on supplementary civil charges and local military charges; details on advances for the colonial services, repayments of loans or advances in aid of revenue, and repayments of deposits; and statements of special and particular services for individual colonies—all to be "made out and furnished quarterly." All accounts of revenue and expenditure of the preceding year were to be transmitted to the Colonial Office for examination and audit on or before the first of April each year. To insure promptness, regulation 14 in section II stipulates that "the salary of the Treasurer, or other proper official, must not be issued to him until he has certified to the Governor that he has complied with his instructions."

Chapter IX supplied instructions for the custody of public monies in painstaking detail. An example covers the instance in which no approved banking establishments were available for the deposit of public monies:

The Governor will cause a secure fireproof vault or safe to be constructed, either in the office of the Treasurer, or in some other appropriate building, for the deposit of all surplus monies. This building is to be duly watched and guarded, and the door of the vault or safe to be furnished with three different locks, the keys of which locks are to be kept by, and under the separate charge—one, of the Treasurer, and the others, of such two principal Officers of the government, as the Governor may consider it most expedient to nominate for such purpose. 8

Subsequent regulations specified under what conditions the vault was to be opened, how receipts were to be issued, and how often the funds were to be counted. The banks which served as government depositories were required to submit monthly statements of deposits and balances and to demonstrate proper security for government deposits. The watchword of these rules was the care and periodic reporting of public funds on behalf of the Secretary of State. 9

Chapter X instructed the Governor and his officials in virtually all matters of public finance. Before the end of June each year, the
Governor was required to submit to the Legislative Council the expenditure to be charged upon the next year's colonial revenues. Upon majority concurrence, the estimates were then to be passed in the form of an ordinance and transmitted to the Secretary of State for Her Majesty's approval and confirmation. The expenditure of the year must then be limited to the approved figure, except for an unforeseen emergency.

Note how the Treasury might influence colonial expenditures:

These estimates, on being received in this country, will be laid before the Lord Commissioners of Her Majesty's Treasury, by the Secretary of State, in order that their Lordships may communicate to the Secretary of State such opinions as they may wish to express upon them, previously to an Instruction being issued to the Colonial Authorities.\textsuperscript{10}

Regulations stipulated that proposed taxation measures, like expenditures, required the joint approval of the Treasury and Colonial Office. The colonial government also had to publish annual statements of revenue and expenditure in the \textit{Colonial Gazette}.

Periodic revisions of the colonial regulations increasingly structured colonial public finance. Until the Hong Kong government became financially autonomous in 1958, the colonial regulations provided the formal background against which the financial authorities in Hong Kong had to work. The guiding principle was that all colonies should aim to be self-supporting, and, moreover, should contribute to the cost of their defense.

\textit{1951 Regulations}

It is instructive to examine the 1951 regulations that applied until financial autonomy was granted. Chapter VIII, by far and away the longest, is given over exclusively to questions of finance. Reproduced below is Section B of Chapter VIII, regulations that structure the estimates, which resembles the financial and accounting regulations under which the present Hong Kong government works.
182. (1) The Governor shall give such directions to his officers as shall ensure that the Annual Estimates of the revenue and expenditure of the Colony shall be submitted by the Government to the Legislature so as to allow reasonable time for their consideration and approval before the beginning of the year to which the Estimates relate.

(2) The Governor shall transmit as early as may be to the Secretary of State, with such explanation and information as the circumstances may require:

(a) the Estimates presented to the Legislature, and

(b) the Estimates as finally approved by the Legislature.

183. The Estimates shall show against each item of revenue or expenditure the amount estimated for the coming year and the amount of the approved Estimate of the current year. Where the expenditure of a department is provided partly by annual votes and partly by a civil list or other special law, the amount provided by law shall appear in an inner column, the total of which shall be added to that of the items not so provided. The Estimates will thus show under each head every item which is expected to come in course of payment during the year of estimate, including not only those which are submitted to the Legislature for discussion and appropriation but also those which, being already provided, are included in the Estimates for information only. The law authorizing the provided expenditure shall be named in each case.

184. The Estimates of revenue and the Estimates of expenditure shall be preceded by abstracts showing the totals of all the heads in the Estimates. The abstracts shall show in separate columns:

(a) the actual revenue and expenditure of the last completed year,

(b) the approved Estimates for the current year,

(c) (in the case of the revenue Estimates only) the revised Estimates, and

(d) the estimated revenue and expenditure for the coming year.

185. The Estimates of Revenue shall include the gross receipts of the Colonial Government, except repayments of advances, proceeds of loans appropriated by law for special works, receipts from sales of investments, deposits, and remittances. They shall include all fees, dues, fines, and rents payable into the Colonial Treasury, any amounts payable to officers in respect of such receipts being provided for in the Estimates of Expenditure under the sub-divisions entitled "Personal Emoluments".
186. The revenue shall be arranged under comprehensive heads. It falls generally into four broad classes:—

(1) Duties, taxes, licenses, etc.;
(2) Receipts for, or in aid of, specific Government services—such as fees or hospital receipts;
(3) Receipts on account of undertakings of a commercial character; and
(4) Revenue from Government property, such as land, houses, and investments.

It will be convenient to have several heads for each of these classes, but care should be taken that no head comprises items coming under different classes, and that revenue derived from taxation is easily distinguishable from revenue not so derived.

187. The proceeds of the sale of Government lands and premiums on leases should be kept distinct in the Estimates from the revenue from other sources.

188. In colonies where a grant or loan in aid of administration is received from United Kingdom funds, the estimate of the amount to be so received shall appear under a separate head of revenue following and distinct from the total revenue receipt from other sources; and in the case of such loans any anticipated repayments shall similarly appear under a separate head of expenditure.

189. If the Colony is receiving a grant or loan from United Kingdom funds to meet certain specific expenditure, the estimate of the grant or loan shall in like manner be shown under a distinct head of revenue, and the expenditure in respect of which it is made shall be shown also, if possible, under a separate head of expenditure below the total ordinary expenditure of the Colony.

190. The Estimates of Expenditure shall be framed so as to show as nearly as possible the amounts which it is expected will actually be spent during the year. Every head of expenditure shall include, as far as possible, all the items relating to that particular service so as to show clearly the total estimated cost of that service during the year.

191. Each head of department is responsible that all services that can be reasonably foreseen are included in his departmental estimate and that no unauthorized increase of salary is inserted therein.

192. Under the heading for each department there shall be two sub-divisions—"Personal Emoluments" and "Other Charges".

193. All items whatsoever of personal emoluments to public officers shall appear under "Personal Emoluments", which will,
therefore, include (besides salaries) personal, duty, entertainment, cost of living, acting, expatriation, and house allowances, allowances in lieu of quarters, fuel, and light, clothing allowances paid in money, fees and percentages or commissions. Travelling and transport allowances are granted in consideration of expenditure incurred on public services and are not therefore items of personal emoluments. Pensionable emoluments should be distinguishable from those not pensionable by a star or other indication.

194. Where an officer receives emoluments under more than one head the fact will be indicated by cross-references or explanatory footnotes. Any pension or compensation allowance, or other emolument in respect of public services, including the provision of an official residence, shall be similarly shown.

195. The sub-division "Other Charges" shall include all services other than personal emoluments which can be properly apportioned to the particular department. Items of expenditure which are not annually recurrent shall be shown separately.

196. Each head of expenditure shall be divided into such sub-heads as may be decided in the case of each Colony. The total personal emoluments of each department will make up one sub-head and small items under "Other Charges" not of a distinctive character may be grouped under a sub-head of "Incidental Expenses". Items not so grouped shall be shown as separate sub-heads. No provision is to be made for "Unforeseen Expenditure".

197. No items of receipt of expenditure shall be included under the head "Miscellaneous" which can appropriately be placed under any other head, and, if necessary, new sub-heads shall be opened for any such items.

198. New heads or sub-heads shall be opened for items of receipt or expenditure not properly falling within any of those already appearing in the Estimates.

199. If the total estimated expenditure of the year is expected to exceed the total estimated revenue a footnote should explain in what manner it is to be met, and in the Appropriation Law the expenditure for the year shall be made a charge on the revenue of the year "and other funds of the Colony".

200. There shall be two heads for public works in addition to that for the establishment of the Public Works Department. All annually recurrent services shall be placed under the first of these heads; and other works under the second. There will thus be three heads of
expenditure administered by the Public Works Department, viz.:—
"Public Works Department", "Public Works Annually Recurrent",
and "Public Works Non-recurrent".

201. In the case of works not annually recurrent which will extend
over more than one year, there shall be shown not only the estimate
for the year, but also the original estimate for the whole work, the
revised estimate (if any), and the total amount likely to have been
expended on the work up to the beginning of the year of estimate.

202. The Estimates shall be accompanied by explanations respect­
ing every item of an unusual nature therein comprised and of any
important difference under each item between the proposed expendi­
ture or anticipated revenue, and the approved estimate for the preced­
ing year, as shown in parallel columns.

203. The Estimates shall be accompanied by a statement of the
assets and liabilities of the Colony at the close of the last completed
year of account, and a statement showing the estimated financial
position of the Colony at the beginning of the year to which the
Estimates relate.

204. The Appropriation Law shall not include sums specifically
provided by law, but only such sums as require to be voted by the
Legislature for the service of the year, and shall appropriate these
sums under each head of expenditure in the Estimates. In cases of
expenditure in excess of these sums, only the net excess on each head
will require supplementary appropriation.11

These budgetary regulations indicate that the Colonial Office has
always specified the form, scope, and procedure to be followed in
preparing and submitting the estimates to the Secretary of State.
The form of the budget, though not necessarily its contents, was not
a local choice, nor were the colonial regulations designed to frustrate
or harass local authorities; rather, the requirements set forth in the
chapter on finance permitted a Secretary of State to assess, at a
glance, the financial position of every British colony.

Other sections in Chapter VIII spell out the responsibilities of
local accounting officers (section A), procedures for the collection
and certification of receipts (C), procedures governing authorization
of payments (D), rules for supplemental expenditure and the control
of expenditure by category of authorized head (E), loan expenditure
authority (F), remittances and custody of public money (G and H),
accounts to be kept (J), auditing of public accounts (K), the purchase and custody of stores (L and M), expenditures on the Governor's residence (N), and the myriads of official annual returns to be submitted to the Secretary of State.

**Financial Reports**

Tables 1 through 6 display the form of Hong Kong's official financial reports, which can, in part, be traced to the colonial regulations.

Table 1 reports revenue estimates by source for the 1969–70 fiscal year. For comparative purposes, the previous year's estimate is printed alongside to show, at a glance, the expected increase or fall in revenue estimates for the forthcoming year. The most recent two years' actual revenues are also included, in part, to compare the estimates with actual receipts and to point out recent trends in revenue receipts.

Table 2 is the expenditure counterpart of Table 1. Each head of expenditure is, in most cases, comparable to a separate administrative department of the Hong Kong government. Once again, recent trends can be discerned for the short-run past; a ten-year review of past government expenditure can be found in the appendices of the official Estimates.

Table 3 displays another feature of the Hong Kong budget—the distinction between recurrent and capital accounts, though this distinction is not demanded in the colonial regulations. The demarcation between recurrent and capital expenditures is somewhat ambiguous, but the intuitive notion is clear. Capital works include such items as roads, waterworks, buildings, heavy machinery, and other investments, in contrast to the recurrent services provided in routine administration, traffic control, social services, economic services, and so forth. Recurrent revenue derives from direct and indirect taxes: direct taxes on earnings and profits, rates levied on the value of land and buildings, entertainment taxes, bets and sweep taxes, license and registration fees, and duties on alcoholic liquors,
Table 1

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<tr>
<td>1. Duties</td>
<td>320,681,015</td>
<td>333,300,000</td>
<td>335,750,196</td>
<td>345,500,000</td>
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<td>2. Rates</td>
<td>280,467,373</td>
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<td>297,432,347</td>
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<td>3. Internal Revenue</td>
<td>628,440,069</td>
<td>628,300,000</td>
<td>704,029,167</td>
<td>726,900,000</td>
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<td>4. Licences and Franchises</td>
<td>104,010,167</td>
<td>94,300,100</td>
<td>99,461,909</td>
<td>99,908,400</td>
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<td>5. Fines, Forfeitures and Penalties</td>
<td>11,329,859</td>
<td>8,680,000</td>
<td>10,358,589</td>
<td>10,320,900</td>
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<td>6. Fees of Court or Office</td>
<td>120,913,232</td>
<td>132,623,300</td>
<td>138,069,268</td>
<td>142,158,400</td>
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<td>7. Water Revenue</td>
<td>67,902,660</td>
<td>74,508,000</td>
<td>76,561,377</td>
<td>79,358,000</td>
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<td>8. Post Office</td>
<td>103,442,068</td>
<td>101,985,000</td>
<td>121,286,603</td>
<td>122,513,000</td>
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<td>9. Kai Tak Airport and Air Services</td>
<td>34,156,690</td>
<td>37,294,000</td>
<td>45,752,725</td>
<td>47,820,800</td>
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<td>10. Kowloon-Canton Railway</td>
<td>11,533,339</td>
<td>16,116,500</td>
<td>13,734,475</td>
<td>16,894,000</td>
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<td>11. Revenue from Lands, Interest, Rents, etc</td>
<td>170,710,244</td>
<td>168,928,000</td>
<td>194,195,164</td>
<td>205,939,400</td>
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<td>12. Land Sales</td>
<td>42,445,806</td>
<td>40,490,000</td>
<td>39,915,655</td>
<td>55,230,000</td>
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<td>13. World Refugee Year Grants</td>
<td>401,687</td>
<td>69,800</td>
<td>7,986</td>
<td>39,500</td>
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<td>14. Contributions towards Projects</td>
<td>3,079,983</td>
<td>15,530,000</td>
<td>4,562,720</td>
<td>19,028,000</td>
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<thead>
<tr>
<th>Colonial Development and Welfare Grants</th>
<th>13,307</th>
<th>244</th>
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| Total Revenue                          | 1,899,527,499 | 1,952,324,700 | 2,081,118,425 | 2,171,610,400 |

## Table 2

### EXPENDITURE

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<td>21. HE the Governor’s Establishment</td>
<td>769,095</td>
<td>833,000</td>
<td>796,110</td>
<td>902,100</td>
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<td>22. Agriculture and Fisheries Department</td>
<td>12,005,818</td>
<td>13,619,900</td>
<td>13,381,272</td>
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<td>23. Audit Department</td>
<td>1,679,173</td>
<td>1,816,100</td>
<td>1,930,110</td>
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<td>24. Census and Statistics Department</td>
<td>726,456</td>
<td>2,987,500</td>
<td>2,473,033</td>
<td>3,757,000</td>
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<td>25. Civil Aviation Department</td>
<td>7,035,180</td>
<td>10,632,100</td>
<td>9,302,043</td>
<td>11,152,500</td>
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<td>26. Colonial Secretariat and Legislature</td>
<td>16,374,541</td>
<td>18,603,700</td>
<td>17,024,435</td>
<td>19,597,800</td>
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<td>27. Commerce and Industry Department</td>
<td>16,889,570</td>
<td>18,285,700</td>
<td>17,660,243</td>
<td>20,105,400</td>
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<td>28. Defence: Hong Kong Regiment (The Volunteers)</td>
<td>1,968,747</td>
<td>2,388,500</td>
<td>2,059,539</td>
<td>2,385,500</td>
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<td>29. Defence: Hong Kong Auxiliary Air Force</td>
<td>2,029,343</td>
<td>1,585,700</td>
<td>1,629,273</td>
<td>1,824,800</td>
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<td>30. Defence: Essential Services Corps and Directorate of Manpower</td>
<td>419,462</td>
<td>436,400</td>
<td>322,427</td>
<td>364,200</td>
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<td>31. Defence: Auxiliary Fire Service</td>
<td>347,759</td>
<td>505,000</td>
<td>333,591</td>
<td>485,000</td>
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<td>32. Defence: Auxiliary Medical Service</td>
<td>1,399,508</td>
<td>1,753,600</td>
<td>1,300,599</td>
<td>1,787,000</td>
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<td>33. Defence: Civil Aid Services</td>
<td>1,731,220</td>
<td>2,417,400</td>
<td>2,564,647</td>
<td>2,574,700</td>
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<td>34. Defence: Registration of Persons Office</td>
<td>1,516,463</td>
<td>1,719,500</td>
<td>1,725,576</td>
<td>1,779,400</td>
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<td>35. Defence: Miscellaneous Measures</td>
<td>79,191,543</td>
<td>81,140,100</td>
<td>78,284,033</td>
<td>83,141,900</td>
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<td>36. Education Department</td>
<td>254,052,149</td>
<td>288,604,300</td>
<td>279,315,183</td>
<td>327,811,500</td>
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<td>37. Fire Services Department</td>
<td>24,898,377</td>
<td>33,189,000</td>
<td>30,332,595</td>
<td>37,075,500</td>
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<td>38. Immigration Department</td>
<td>6,654,678</td>
<td>7,932,600</td>
<td>8,061,279</td>
<td>9,629,200</td>
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<td>39. Information Services Department</td>
<td>4,610,447</td>
<td>6,948,000</td>
<td>6,988,664</td>
<td>14,940,500</td>
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<td>40. Inland Revenue Department</td>
<td>9,150,440</td>
<td>10,534,100</td>
<td>10,583,404</td>
<td>14,271,300</td>
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<tr>
<td>41. Judiciary</td>
<td>9,596,230</td>
<td>11,187,800</td>
<td>11,227,202</td>
<td>12,526,600</td>
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<td>42. Kowloon-Canton Railway</td>
<td>8,486,865</td>
<td>9,271,400</td>
<td>8,630,561</td>
<td>10,924,800</td>
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<td>43. Labour Department: Labour Division</td>
<td>4,063,966</td>
<td>5,203,500</td>
<td>5,465,271</td>
<td>6,528,100</td>
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<td>44. Labour Department: Mines Division</td>
<td>392,321</td>
<td>545,600</td>
<td>659,686</td>
<td>470,500</td>
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<td>45. Legal Department</td>
<td>3,362,697</td>
<td>3,865,000</td>
<td>4,302,623</td>
<td>4,279,900</td>
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<td>46. Marine Department</td>
<td>19,259,669</td>
<td>21,709,900</td>
<td>20,931,492</td>
<td>24,976,300</td>
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<tr>
<td>47. Medical and Health Department</td>
<td>120,524,934</td>
<td>134,938,600</td>
<td>133,582,644</td>
<td>147,858,900</td>
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<td>48. Miscellaneous Services</td>
<td>73,417,608</td>
<td>44,348,600</td>
<td>42,708,284</td>
<td>44,536,800</td>
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<td>49. New Territories Administration</td>
<td>12,813,344</td>
<td>13,448,700</td>
<td>13,596,287</td>
<td>15,471,900</td>
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<td>50. Pensions</td>
<td>46,657,149</td>
<td>49,132,000</td>
<td>53,267,385</td>
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<td>51. Police Force: Royal Hong Kong Police</td>
<td>124,194,709</td>
<td>144,759,600</td>
<td>143,344,769</td>
<td>158,668,100</td>
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<td>52. Police Force: Royal Auxiliary Police</td>
<td>1,449,931</td>
<td>3,653,700</td>
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<td>53. Post Office</td>
<td>55,755,229</td>
<td>59,293,200</td>
<td>71,191,111</td>
<td>73,618,700</td>
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<td>54. Printing Department</td>
<td>7,099,479</td>
<td>8,523,200</td>
<td>8,014,405</td>
<td>8,976,200</td>
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### Expenditure

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<tr>
<td>55. Prisons Department</td>
<td>$17,724,695</td>
<td>$19,863,500</td>
<td>$20,806,920</td>
<td>$23,047,100</td>
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<td>56. Public Debt</td>
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<td>$5,041,710</td>
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<td>$5,019,030</td>
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<td>57. Public Services Commission</td>
<td>$161,171</td>
<td>$209,100</td>
<td>$205,505</td>
<td>$212,800</td>
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<td>58. Public Works Department</td>
<td>$95,018,759</td>
<td>$107,630,500</td>
<td>$110,570,214</td>
<td>$123,114,400</td>
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<td>59. Public Works Recurrent</td>
<td>$85,922,654</td>
<td>$100,127,200</td>
<td>$92,588,718</td>
<td>$106,871,000</td>
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<tr>
<td>60. Public Works Non-recurrent:</td>
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<td></td>
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<tr>
<td>Headquarters</td>
<td>$13,085,305</td>
<td>$6,629,000</td>
<td>$3,745,338</td>
<td>$6,642,000</td>
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<td>61. Public Works Non-recurrent:</td>
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<td>Buildings</td>
<td>$170,117,164</td>
<td>$186,357,300</td>
<td>$152,574,867</td>
<td>$185,212,600</td>
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<td>62. Public Works Non-recurrent:</td>
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<tr>
<td>Civil Engineering</td>
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<td>$96,091,900</td>
<td>$68,870,353</td>
<td>$78,778,300</td>
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<td>63. Public Works Non-recurrent:</td>
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<td>Waterworks</td>
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<td>$76,431,000</td>
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<td>$38,406,000</td>
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<td>64. Radio Hong Kong</td>
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<td>$4,441,200</td>
<td>$4,476,003</td>
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<td>65. Rating and Valuation</td>
<td>$2,851,104</td>
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<td>$3,790,052</td>
<td>$4,374,200</td>
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<td>Department</td>
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<td></td>
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<tr>
<td>66. Registrar General’s Department</td>
<td>$4,827,450</td>
<td>$5,741,600</td>
<td>$5,431,429</td>
<td>$6,181,900</td>
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<td>67. Registry of Trade Unions</td>
<td>$388,899</td>
<td>$414,100</td>
<td>$425,886</td>
<td>$437,500</td>
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<td>68. Resettlement Department</td>
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<td>$42,398,800</td>
<td>$42,572,061</td>
<td>$47,629,400</td>
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<td>69. Royal Observatory</td>
<td>$3,055,797</td>
<td>$3,507,200</td>
<td>$3,675,797</td>
<td>$3,873,600</td>
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<td>70. Secretariat for Home Affairs</td>
<td>$2,736,426</td>
<td>$3,326,600</td>
<td>$5,278,810</td>
<td>$7,672,200</td>
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<tr>
<td>71. Social Welfare Department</td>
<td>$12,964,978</td>
<td>$15,857,900</td>
<td>$16,914,720</td>
<td>$19,880,900</td>
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<td>72. Government Supplies</td>
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<tr>
<td>Department</td>
<td>$11,604,999</td>
<td>$21,278,800</td>
<td>$15,575,609</td>
<td>$21,139,800</td>
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<td>73. Subventions: Medical</td>
<td>$46,341,311</td>
<td>$54,608,800</td>
<td>$52,457,856</td>
<td>$62,085,600</td>
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<tr>
<td>74. Subventions: Social Welfare</td>
<td>$7,814,429</td>
<td>$9,888,400</td>
<td>$9,350,870</td>
<td>$11,625,100</td>
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<td>75. Subventions: Miscellaneous</td>
<td>$21,450,056</td>
<td>$22,287,000</td>
<td>$22,728,733</td>
<td>$25,339,100</td>
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<td>76. Transport Department</td>
<td>$3,055,797</td>
<td>$3,507,200</td>
<td>$3,675,797</td>
<td>$3,873,600</td>
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<td>77. Treasury</td>
<td>$4,489,378</td>
<td>$4,756,400</td>
<td>$5,147,746</td>
<td>$5,511,000</td>
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<tr>
<td>78. Universities</td>
<td>$35,253,068</td>
<td>$68,084,000</td>
<td>$65,888,639</td>
<td>$77,728,000</td>
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<tr>
<td>79. Urban Services Department</td>
<td>$60,178,378</td>
<td>$68,005,600</td>
<td>$68,552,706</td>
<td>$80,364,800</td>
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<tr>
<td>and Urban Council</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>80. Urban Services Department:</td>
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<td></td>
</tr>
<tr>
<td>City Hall</td>
<td>$3,029,273</td>
<td>$4,068,200</td>
<td>$3,468,953</td>
<td>$3,999,200</td>
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<td>81. Urban Services Department:</td>
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<tr>
<td>Housing Division</td>
<td>$7,463,285</td>
<td>$9,739,400</td>
<td>$9,000,980</td>
<td>$13,060,300</td>
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<td>82. Urban Services Department:</td>
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<td></td>
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<tr>
<td>New Territories Division</td>
<td>$7,458,556</td>
<td>$8,594,100</td>
<td>$8,574,577</td>
<td>$9,777,500</td>
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<td>Secretariat for Home Affairs:</td>
<td>$348,089</td>
<td>$377,300</td>
<td>$89,875</td>
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<td>Public Enquiry Service</td>
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<tr>
<td>Defence: Hong Kong Royal Naval Reserve</td>
<td>$60,186</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
<td>83. World Refugee Year Schemes</td>
<td>$60,424</td>
<td>$40,900</td>
<td>$11,510</td>
<td>$49,400</td>
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<tr>
<td>Colonial Development and Welfare Schemes</td>
<td>$12,937</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Total Expenditure</td>
<td>$1,766,022,040</td>
<td>$1,965,353,010</td>
<td>$1,872,974,955</td>
<td>$2,118,195,830</td>
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**Source:** *Hong Kong Annual Report, 1969, pp. 258–259.*
Table 3

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<tbody>
<tr>
<td>Recurrent Revenue</td>
<td>1,514,339,155</td>
<td>1,717,615,435</td>
<td>1,794,823,131</td>
<td>1,998,689,360</td>
<td>2,072,605,700</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,514,339,155</td>
<td>1,717,615,435</td>
<td>1,794,823,131</td>
<td>1,998,689,360</td>
<td>2,072,605,700</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital</th>
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<tr>
<td>Estate Duty</td>
<td>18,952,039</td>
<td>19,450,595</td>
<td>18,327,217</td>
<td>15,401,589</td>
<td>18,000,000</td>
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<tr>
<td>Excess Stamp Duty (3% on Assignments)</td>
<td>9,892,715</td>
<td>10,219,200</td>
<td>7,778,047</td>
<td>9,308,096</td>
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<tr>
<td>Private Contribution towards Government Schemes</td>
<td>3,115,862</td>
<td>6,064,626</td>
<td>3,079,983</td>
<td>4,562,720</td>
<td>19,028,000</td>
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<tr>
<td>Loan Repayments</td>
<td>6,622,028</td>
<td>6,653,784</td>
<td>7,081,291</td>
<td>6,664,749</td>
<td>3,707,200</td>
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<tr>
<td>Land Sales</td>
<td>73,355,395</td>
<td>48,454,617</td>
<td>42,445,806</td>
<td>39,915,655</td>
<td>55,230,000</td>
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<td>Colonial Development and Welfare Grants</td>
<td>586,539</td>
<td>365,648</td>
<td>13,307</td>
<td>244</td>
<td>—</td>
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<tr>
<td>World Refugee Year Grants</td>
<td>2,032,480</td>
<td>161,882</td>
<td>401,688</td>
<td>7,986</td>
<td>39,500</td>
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<tr>
<td>Taxi concessions</td>
<td>2,805,000</td>
<td>8,775,765</td>
<td>25,577,029</td>
<td>6,568,026</td>
<td>3,000,000</td>
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<tr>
<td></td>
<td>117,362,058</td>
<td>100,146,117</td>
<td>104,704,368</td>
<td>82,429,065</td>
<td>99,004,700</td>
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<tr>
<td>Contribution from Recurrent Revenue</td>
<td>479,880,807</td>
<td>524,679,890</td>
<td>356,181,474</td>
<td>294,544,955</td>
<td>352,082,000</td>
</tr>
<tr>
<td>Deficit</td>
<td>137,429,255</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
<td></td>
<td>734,672,120</td>
<td>624,826,007</td>
<td>460,885,842</td>
<td>376,974,020</td>
<td>451,086,700</td>
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## AND CAPITAL INCOME AND EXPENDITURE

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</thead>
<tbody>
<tr>
<td>Personal Emoluments</td>
<td>523,227,308</td>
<td>573,972,981</td>
<td>625,243,893</td>
<td>722,600,313</td>
<td>795,631,700</td>
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<tr>
<td>Pensions</td>
<td>30,644,023</td>
<td>43,515,917</td>
<td>46,657,149</td>
<td>53,267,385</td>
<td>56,729,000</td>
</tr>
<tr>
<td>Departmental Recurrent Expenditure (excluding Unallocated Stores)</td>
<td>158,208,485</td>
<td>178,051,064</td>
<td>186,682,062</td>
<td>222,236,251</td>
<td>257,676,400</td>
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<tr>
<td>Recurrent Subventions</td>
<td>195,924,014</td>
<td>236,985,765</td>
<td>258,446,702</td>
<td>301,057,356</td>
<td>340,491,500</td>
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<tr>
<td>Public Works Recurrent</td>
<td>70,332,146</td>
<td>91,505,753</td>
<td>85,922,654</td>
<td>92,588,718</td>
<td>106,871,000</td>
</tr>
<tr>
<td>Miscellaneous Recurrent Expenditure</td>
<td>56,122,372</td>
<td>57,209,115</td>
<td>102,183,738</td>
<td>104,250,912</td>
<td>109,709,530</td>
</tr>
<tr>
<td>Transfer to Capital Revenue</td>
<td>1,034,458,348</td>
<td>1,181,240,595</td>
<td>1,305,136,198</td>
<td>1,496,000,935</td>
<td>1,667,109,130</td>
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<tr>
<td>Surplus</td>
<td>479,880,807</td>
<td>524,679,890</td>
<td>356,181,474</td>
<td>294,544,955</td>
<td>352,082,000</td>
</tr>
</tbody>
</table>

|                      | 1,514,339,155 | 1,717,615,435 | 1,794,823,131 | 1,998,689,360 | 2,072,605,700 |

| Departmental Special Expenditure | 29,848,197 | 32,206,622 | 26,587,538 | 28,049,617 | 60,356,100 |
| Capital Subventions | 25,845,748 | 16,877,567 | 18,110,809 | 31,257,244 | 56,654,100 |
| Public Debt (excluding interest) | 4,252,000 | 3,809,600 | 3,700,000 | 3,409,091 | 3,409,100 |
| Colonial Development and Welfare Schemes | 637,625 | 371,252 | 12,937 | — | — |
| Miscellaneous Capital Expenditure | 79,272,502 | 85,226,332 | 52,058,373 | 18,351,335 | 19,579,100 |
| World Refugee Year Schemes | 2,794,831 | 410,316 | 60,424 | 11,510 | 49,400 |
| Unallocated Stores Accounts | 4,622,643 | 6,031,088 | Cr. 444,050 | 3,450,141 | 2,000,000 |

|                      | 734,672,120 | 624,826,007 | 460,885,842 | 376,974,020 | 451,086,700 |

Source: Hong Kong Annual Report, 1969, pp. 262, 263.
Table 4

<table>
<thead>
<tr>
<th>DEPOSITS:</th>
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<th>STATEMENT OF ASSETS AND LIABILITIES</th>
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<td>Unspent Grants</td>
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<td>...</td>
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<tr>
<td>Public Works Department:</td>
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<tr>
<td>Contract Retentions</td>
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<tr>
<td>Private Works</td>
<td>...</td>
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<tr>
<td>Water Deposits</td>
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<td>Other Deposits:</td>
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<td></td>
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<tr>
<td>Control of Publications</td>
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<td>...</td>
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<tr>
<td>Government Servants</td>
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<td>...</td>
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<tr>
<td>Post Office</td>
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<td>Other Administrations</td>
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<tr>
<td>Miscellaneous</td>
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<tr>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

SPECIAL FUNDS:

| World Refugee Year Loan Fund for Co-operative Societies | ... | ... | ... | 220,104.33 |

REVENUE EQUALIZATION FUND | ... | ... | ... | ... | 138,024,760.94 |

GENERAL REVENUE BALANCE: (ii)

| As at April 1, 1968 | ... | ... | ... | ... | 787,644,564.48 |
| Add: | | | | | |
| Surplus from April 1, 1968 to March 31, 1969 | ... | ... | ... | 208,143,470.67 |
| Less: | | | | 995,788,035.15 |
| Depreciation on Investments | ... | ... | ... | 46,510,160.09 |
| | | | | 949,277,875.06 |
| | | | | $1,160,531,078.04 |

Notes: (i) Does not include 16,290 shares of a nominal
(ii) There are contingent liabilities in respect of—
(a) The Colony's capital participation in the
(b) A guarantee on notes issued by the Hong
(c) The contracts of the Hong Kong Export
(d) The accumulated deficit of $133,015.01 of


**LIABILITIES AS AT MARCH 31, 1969**

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<th>ASSETS</th>
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<td><strong>CASH:</strong></td>
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<td>In Treasuries, in transit, Departments and Banks in Hong Kong</td>
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<tr>
<td>With the Crown Agents</td>
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<tr>
<td><strong>FIXED DEPOSITS:</strong></td>
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<tr>
<td>Local</td>
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<tr>
<td>Sterling</td>
</tr>
<tr>
<td><strong>INVESTMENTS:</strong></td>
</tr>
<tr>
<td>Malayan</td>
</tr>
<tr>
<td>Sterling</td>
</tr>
<tr>
<td><strong>SPECIAL FUNDS:</strong></td>
</tr>
<tr>
<td>World Refugee Year Loan Fund for Co-operative Societies—Deposits</td>
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<td><strong>ADVANCES:</strong></td>
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<tr>
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<tr>
<td>Personal—General</td>
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<tr>
<td>Other Administrations</td>
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<tr>
<td>Miscellaneous</td>
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<tr>
<td><strong>value of $100 each held in Associated Properties Limited.</strong></td>
</tr>
<tr>
<td><strong>Asian Development Bank.</strong></td>
</tr>
<tr>
<td><strong>Kong Building and Loan Agency Limited.</strong></td>
</tr>
<tr>
<td><strong>Credit Insurance Corporation.</strong></td>
</tr>
<tr>
<td><strong>the $ Note Security Fund.</strong></td>
</tr>
</tbody>
</table>

tobacco, hydrocarbon oils, table waters, and methyl alcohol. Capital revenue comes from estate duty, land sales, and occasional grants, but the bulk is simply a transfer from recurrent revenue. Hong Kong’s annual prodigious public works program, particularly the colony’s waterworks and urban housing projects, are financed out of current revenue, not from funds raised by treasury bills or foreign loans.

Assets and liabilities of the colony appear in Tables 4 and 5. Public debt is miniscule—about HK$15 per capita, and surplus funds on hand for potential government use are colossal. In 1969, for example, surplus funds were nearly fifteen times total public debt. Moreover, interest earnings on the government reserves return a rate far higher than the debt charges on the colony’s loans.

Table 6 represents a typical entry from the 1972–73 Estimates, which are prepared by the Finance Branch inside the Colonial Secretariat in conjunction with department heads, for the final consideration of the Legislative Council. The form of the departmental estimates follows the colonial regulations: personal emoluments with appropriate allowances, other charges, and special expenditures. The forthcoming fiscal-year estimates appear in bold type, alongside the prior year’s approved estimates.

Tables 1 through 6 comprise the budget, which must show estimates of proposed expenditure in comparison with past expenditures, current appropriations, and the resources available with
Table 6

ROYAL OBSERVATORY

<table>
<thead>
<tr>
<th>Sub-head</th>
<th>Salary Scale</th>
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Personal Emoluments

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Supernumerary Staff

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Anually Recurrent

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Total, Personal Emoluments ........................................ 4,100,000 3,400,000
Table 6 (cont.)

ROYAL OBSERVATORY

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<tr>
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<td>Total, Other Charges</td>
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<td>Total, Annually Recurrent</td>
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Special Expenditure

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<th>Estimate 1972-73</th>
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<tbody>
<tr>
<td>Electric cup anemometers</td>
<td>88,200 a</td>
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<tr>
<td>Microfilming</td>
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<td>91,200</td>
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<tr>
<td>Motor vehicles</td>
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<td>44,500</td>
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<tr>
<td>Power supply for anemometer at the Airport</td>
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<td>Runway visual range measuring equipment</td>
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</tr>
<tr>
<td>Transistorized oscilloscope</td>
<td>10,900 a</td>
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</tr>
<tr>
<td>Frequency standard unit</td>
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<tr>
<td>Iso-echo device for 43S radar</td>
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<tr>
<td>Meteorological satellite receiving equipment</td>
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<td>Total, Special Expenditure</td>
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<tr>
<td>Total Expenditure</td>
<td>6,693,500</td>
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which to meet the proposed expenditures. The estimates are classified, summarized, and compared with past expenditures and revenues to allow the legislative authorities to readily determine the extent to which they represent increases and decreases in expendi-
ture policy for specific items. The essence of the budgetary system is that the fund-raising and granting authority shall be presented with a balanced statement of estimated receipts and expenditures in order to show a prospective deficit or a surplus, which may permit a remission of taxation or require an increase of taxation.

Separate accounts are kept for the Development Loan Fund and a Lotteries Fund. The Development Loan Fund is used to finance social and economic projects of a self-liquidating nature, mainly low-cost housing schemes. The Lotteries Fund, established in 1965, is for the support and development of social welfare services in the colony.

Apart from the Housing Authority and the Urban Council, which have a certain measure of autonomy, there are no financially independent subordinate bodies similar to the local government authorities in the United Kingdom. The revenue and expenditure figures therefore represent all the public income and expenditure of the colony, other than the operation of the various official funds.

The audit of all public accounts and certain special funds is carried out by the Director of Audit, who, since 1972, is responsible to the Governor. Prior auditors were appointees of a Director-General of Colonial Audit, who was responsible to the Secretary of State for the audit of all colonial accounts. The auditor’s annual report is presented to the Legislative Council, and a copy is transmitted to the Secretary of State along with all departmental reports.

Financial Autonomy

The procedures outlined in Chapter VIII of the 1951 colonial regulations that insured financial transparency remained in effect in Hong Kong, adhered to by the deliberate choice of the Hong Kong government. Among post-World War II governments, Hong Kong is virtually unique in the avoidance of budget deficits and the accumulation of substantial reserves. In response to its financial independence, the colony was granted a larger measure of financial autonomy in 1958. This was announced by the Governor, Sir Robert Black, in the course of his annual address to the Legislative Council on 6 March 1958:
Before concluding, I have to report a decision recently taken by the Secretary of State. He has approved a considerable relaxation in the financial control which he exercises over Hong Kong. In 1948 the Colony was released from Treasury control and given a large measure of autonomy over its own finances. The control which the Secretary of State still retained at that time was that his approval was still required for the annual Estimates, for supplementary provisions exceeding $1 million in the case of capital expenditure, and for the issue of any loan and for any expenditure involving important points of principle. The Secretary of State has now informed me that, in view of the good standing, financial and administrative, of the Colony, he will further relax his control and will no longer require the Estimates to be submitted for his approval; nor will he require supplementary provisions to be authorized by him.\textsuperscript{12}

This measure reserved the control of the Secretary of State only for raising loans when a guarantee by the United Kingdom government may be required, and for financial matters involving important points of principle, though the latter phrase is so unclear as to intend little practical meaning. Treasury control, relinquished in 1870, had been imposed again in the aftermath of World War II on the (mis­taken) assumption that Hong Kong's government would not be viable without a treasury subvention (in fact, Hong Kong turned out a surplus in March 1947 for the 1946–47 fiscal year). In 1948 it was again relinquished, and now ten years later the Secretary of State's control was also lifted. Financial powers were transferred to the colony's Legislative Council.

\textit{Regulations of the Hong Kong Government}

The principles and practice of public finance in present-day Hong Kong are, in the main, a direct offshoot of colonial tradition—especially the colonial regulations. Until 1958, the Governor and the Legislative Council were not fully released from Colonial Office control, although convention had long since replaced the letter of the regulations. Hong Kong continues to follow the pattern of colonial accounting practices because they are a good set of rules for financial integrity. Where they have been refined, it has nearly always
been in the direction of increased transparency. Financial regulations are, therefore, the product of Colonial Office policy, nineteenth-century economic values, and contemporary fiscal responsibility. The form and scope of the budget have changed little since the granting of financial autonomy and still resemble the traditional colonial regulations. As well, nineteenth-century values of economic liberalism still influence official thinking and practice in Hong Kong.

In the conduct of government business, Hong Kong is, by and large, relatively free from the United Kingdom Parliament, from British public opinion, and also from the Foreign and Commonwealth Office, into which the remaining departments in the Colonial Office were merged. Government business is structured according to the Governor's Regulations of the Hong Kong Government, and he has the authority over their interpretation and application. The regulations relate to the conduct of government business, the conditions of service for public officials, financial business and accounting operations, the keeping of government stores, the security of public records, and other miscellaneous matters. Government regulations are divided into five parts, of which Part III—Financial and Accounting Regulations—most concerns us. It, in turn, is divided into six chapters, which virtually mirror the parent set of colonial regulations:

Chapter I—General Accounting Instructions
Chapter II—The Estimates
Chapter III—Authority for and Control of Expenditure under Votes
Chapter IV—Payments and Imprests
Chapter V—Revenue and Receipts
Chapter VI—Handling and Safe Custody of Cash, etc.

The Hong Kong financial regulations reflect the substance and flavor of the previously reproduced parent colonial regulations. A few specific paragraphs highlight either unique practices or important underlying values of Hong Kong public finance. Paragraph 210 initiates the procedure:
210. (1) The Estimates of Expenditure of each department for the ensuing year are usually called for by circular in September each year. Heads of Departments are required to furnish all necessary particulars before 15 November or such other date as may be prescribed. In addition, separate circulars are issued during the year dealing with particular aspects of the Estimates (e.g., proposals for staff increases).

Succeeding paragraphs structure the form of the estimates by division into heads (the largest unit of the estimates for accounting purposes and corresponding in most cases to a department of the public service), subdivisions of heads, personal emoluments, and other charges. Other charges, in turn, is divided into two parts—annually recurrent and special expenditure.

Paragraph 212 points to the incremental or decremental nature of Hong Kong budgeting:

212. Personal Emoluments should be set out in detail on the Estimate Form A (G.F. 9), and Other Charges in detail on the Estimate Form B (G.F.10) together with full supporting details of how the figures are computed. The approved expenditure for the current year should be used as a guide and all increases and decreases must be explained, either by marginal notes or in a covering memorandum, quoting in each case, where appropriate, the date and reference of the authority for the change.

This regulation requires that all requested increases or decreases must be fully justified, and, if the increase or decrease is based upon a shift in policy or the implementation of a new policy, justification generally entails prior policy approval.

And again:

308. (1) It is the responsibility of Heads of Departments to exercise strict economy in the votes under their control. Money must not be spent, if it is not necessary to spend it, simply because it has been voted.

This regulation is the key to understanding the remarkable fiscal integrity of the Hong Kong government. In a world where govern-
ment departments exert every possible effort to exhaust their allocations and, if possible, overspend, Hong Kong represents a notable counterexample. Many department heads genuinely strive to save money in the execution of their responsibilities.
Constitutional and Administrative Framework

Much of Hong Kong politics takes place in the policy-making and budgetary processes, not in the electorate. The "administrative no-party state" of Hong Kong does not have a formal electorate other than for the relatively unimportant Urban Council, which administers such minor tasks as sanitation, running of markets, management of public libraries and government car parks, and maintenance of places for public recreation.

Hong Kong is not a representative democracy. Administrative and executive authority lie in the hands of appointed civil servants whose personnel, at the higher levels, have been recruited chiefly from the United Kingdom. Popular expression of preference in the form of periodic elections or public opinion polls neither gives guidance to nor constrains these officials who govern under constitutional limits of administrative power. Hong Kong political activity is not party competition, the quest for votes, popularity, high standing in the polls, a share of the "pork barrel," nor the public debate of social issues. It is rather administrative day-to-day decision making by appointed officials, sometimes within the administration, often in consultation with one of a myriad of official advisory committees, or, on occasion, with the open soliciting of the public's views when a "green paper"—the basis of future official policy—is published. Political activity resides with the participants who make policy and who finally spend the taxpayer's money.

Public administration is an interdependent process which, conceptually, can be viewed in two stages: first, policy is made; second, monies are authorized. The law of the constitution highlights the broad features of the authority and procedures for making policy. It is fair to say, on balance, that policy makers in Hong Kong rigidly
adhere to constitutional procedure, although the personalities of the men in office determine which views will prevail and how much say lower-level officials may have in the making and enforcing of policy, particularly when scarce resources are sought for specific competing priorities.¹

Official policy is not made during the workings of the budgetary process, which is, or should be, only the funding mechanism through which approved policies are implemented.

His Excellency, the Governor

The authority for making policy is concentrated in the person of the Governor, assisted, in practice, by his Executive Council. The Letters Patent and Royal Instructions to the Governor of Hong Kong² of 14 February 1917, with various amendments through 1972, define the Governor’s powers. Clause II of the Letters Patent rationalizes the Governor’s authority:

II. We do hereby authorize, empower, and command Our said Governor and Commander-in-Chief (hereinafter called the Governor) to do and execute all things that belong to his said office, according to the tenour of these Our Letters Patent and of any Commission issued to him under Our Sign Manual and Signet, and according to such Instructions as may from time to time be given to him, under Our Sign Manual and Signet, or by Order in Our Privy Council, or by Us through one of Our Principal Secretaries of State, and to such laws as are now or shall hereafter be in force in the Colony.

As representative of the Queen, he is the head of government and constitutionally accepts his instructions from the Secretary of State, though, in practice, instructions are rarely given. One official in the Foreign and Commonwealth Office put it this way:

The Governor must champion the interests of Hong Kong. It wouldn’t do for him to be running back and forth to London for instructions on every issue of disagreement between London and Hong Kong. Such a man would never be appointed as Governor of Hong Kong.
As chief executive, the Governor has the final responsibility for the administration of the colony. He makes laws by and with the advice and consent of the Legislative Council. He has powers to make appointments, to dismiss or suspend officeholders, to make grants and dispositions of land vested in the Crown, and to grant mercy, as specified in the *Letters Patent*. A Governor’s commission is usually given for an initial period of five years, but postwar governors have served as long as ten years. (Sir Alexander Grantham, for example, served from 1947 to 1957.)

Governors have traditionally risen from the ranks of the colonial service, after serving long stretches as administrative officers in the Hong Kong civil service. As a result, they are generally well versed in the administrative and financial routine of the Hong Kong government. For example, Sir Robert Black (1957–64) served as Colonial Secretary under Grantham; Sir David Trench (1964–71) held a number of posts in the Colonial Secretariat, among them the position of Deputy Colonial Secretary under Sir Robert Black. Sir Murray MacLehose, appointed in 1971, represents a notable departure; unlike his predecessors, he was not recruited from the ranks of the colonial service. He is, instead, a diplomat in Her Majesty’s Foreign Office, having served in Hong Kong only as Political Advisor from 1958 to 1959. One senior staff grade officer, with more than twenty years’ service in Hong Kong, describes Sir Murray’s appointment as an effort by London to tighten its control over what is left of Her Majesty’s empire:

The Governor is clearly the most important person in determining policy in Hong Kong. He must satisfy his constituents’ wishes of making Hong Kong into a little Britain. Hong Kong had gone off on its own too far vis-à-vis Britain, with Cowperthwaite leading the extremist direction of independence. The new Foreign Office Governor is, in part, a reaction to too much independence for Hong Kong.

Clauses II through XII of the *Royal Instructions* comprise the constitutional foundations for policy making in Hong Kong—the interrelation of the Governor with his advisory body, the Executive Council. The Executive Council consists of five ex officio members—the Commander of British forces, the Colonial Secretary, the
Attorney General, the Secretary for Home Affairs, and the Financial Secretary—together with such other official and unofficial persons as are appointed on instructions from the Secretary of State on the Governor’s recommendation. Eight nominated unofficial members in the fifteen-man Executive Council are appointed from among the community’s leaders for a term up to five years, which may be renewed.

The Governor alone has the authority to summon the Executive Council into session and presides as President at its meetings. Clauses X, XI, and XII of the Royal Instructions are the heart of the Governor’s policy authority. Clause X stipulates that in the execution of the Governor’s power and authorities:

He shall in all cases consult with the Executive Council, excepting only in cases relating to the appointment, disciplinary control or dismissal of public officers, or when the matters to be decided shall be too unimportant to require their advice, or too urgent to admit of their advice being given by the time within which it may be necessary for him to act in respect of any such matters.

Executive Council proceedings usually take place on Tuesday mornings and are held in strictest confidence. Each member of Executive Council, both ex officio or nominated, swears to give his advice for the public good and takes a binding oath of secrecy which is almost never violated. Clause XI of the Royal Instructions gives the Governor sole power to submit questions to Executive Council for their advice or decision, but if he refuses a member’s written request to submit a question to the council, this fact, with the Governor’s answers, is recorded upon the official minutes, which are sent to the Secretary of State.

The Governor—not the Executive Council—is the sole ultimate authority for administration, legislation, and finance. Clause XII in the Royal Instructions properly grants his authority to act in strict defiance of Executive Council:

The Governor may, in the exercise of the powers and authorities granted to him by Our said recited Letters Patent, act in opposition to the advice given to him by the Members of the Executive Council, if
he shall in any case deem it right to do so; but in any such case he shall fully report the matter to Us by the first convenient opportunity, with the grounds and reasons of his action. (italics mine)

There is no provision for formal voting in the Executive Council. The Governor seeks to distill a consensus from the advice he is given and acts on it unless he has overwhelming reasons for not doing so. The Governor generally consults his Executive Council before ruling on major policy decisions, for example, submissions by heads of department for important changes in policy.

The Letters Patent and Royal Instructions empower the Governor with broad authority. His only constraints are the reality of Hong Kong's political economy and his responsibility to Her Majesty through the Secretary of State, who is, in turn, responsible to the United Kingdom Parliament for the administration of colonies.

Opinions in Hong Kong differ widely on the practical effects of the authority which the Letters Patent grants His Excellency. One head of department offered what he believed to be a realistic assessment of Sir Murray's decision-making authority:

Haddon-Cave [the Financial Secretary] is the most powerful man in the colony. Power is where the money lies. Although the Governor is not exactly a figurehead, he would be nowhere without the Financial Secretary, the head of the Hongkong and Shanghai Bank, and the prominent Chinese businessmen.

Others, though, ascribe substantial practical influence to the wishes of the Governor. One distinguished staff grade officer noted that Sir Murray's appointment made his administrative life considerably easier: "This Governor came in and said spend more on ______. I immediately asked for a raise in item ______ from HK$3 million to HK$4 million and had no trouble getting it."

One quiet-spoken critic of Sir Murray's policies offered the following concern over his program and authority to force implementation:

His Excellency is a bit of a socialist. He and his supporters want to engage in British-type distributive justice, that is, more social
schemes. He does not believe that the existence of incompatible ranges of wealth is socially healthy. What scares me is that this Governor is competent and prepared to exercise his power. The good Hong Kong is one with a brilliant Financial Secretary and several competent aides; the remainder of the establishment can be mediocre. Hong Kong is in trouble if things are the other way around.

Of course, the personality and wishes of the Governors dictate the style of His Excellency's involvement in policy making and routine administration. The individual who occupies the highest authority can either exert enormous influence or leave the running of Hong Kong to his civil service. As my first informant put it:

Personalities are important: who the Governor is, his style, what he wants to accomplish. I ask myself how the Governor looks out of the corner of his eye each morning and evening. I then try to anticipate what he wants so when he tells me what he has been thinking about, I can reply with my own suggestions to insure that his plans will work. The Governor is, after all, my chief constituent. (italics mine)

Does the Governor play a major role in determining government policy? The same officer noted that "most policy directives come from above—from the Colonial Secretariat or the Governor. Departments tend to be slow, backward, laggard, and find difficulty in spending their allotted sums or recruiting qualified staff."

The Legislative Council

The Letters Patent and Royal Instructions also set forth the constitutional foundations of the Governor's legislative authority. Clause VII of the Letters Patent stipulates that "The Governor, by and with the advice and consent of the Legislative Council, may make laws for the peace, order, and good government of the Colony."

Clauses XIII through XXVIII supply the details. As amended on 28 June 1972, the Legislative Council consists of the Governor, ex officio members (the Colonial Secretary, the Attorney General, the Secretary for Home Affairs, and the Financial Secretary), and
not over ten other persons holding office under the Crown in the colony. Other official members have included the Director of Medical and Health Services, the Director of Public Works, the Director of Education, the District Commissioner for the New Territories, the Director of Social Welfare, the Director of Commerce and Industry, and the Commissioner of Labor. (Reorganization of the Hong Kong government in 1972 changed some of these assignments.) Clause XIII also stipulates the appointment of a maximum of fifteen nominated unofficial councillors, invariably drawn from the prominent members of the community, the majority of whom are well-to-do Chinese.

Tenure of appointment for unofficial members is a maximum term of four years, but they are eligible for subsequent reappointments. Given the virtual lack of public selection of unofficial members, how does the Legislative Council function as a lawmaking body? What rules govern procedure? How does practice conform to constitutional doctrine? According to Clause XXII of Royal Instructions:

All questions proposed for debate in the Legislative Council shall be decided by the majority of votes, and the Governor or the Member presiding shall have an original vote in common with other Members of the Council, and also a casting vote, if upon any question the votes shall be equal.

In the early history of Legislative Council proceedings, official members had joined, on occasion, with unofficials to vote down the Governor’s proposals. This freedom of the officials to vote as they pleased was soon to be curtailed.

In 1864 the home government asked for a contribution of HK$20,000 for defense of the colony; this brought forth vocal opposition led by the unofficial members of Legislative Council. During the September 1864 vote, the Colonial Treasurer joined with the unofficials in protest of this appropriation. Cardwell, Secretary of State (1864–66), expressed strong disapproval of the Colonial Treasurer’s behavior and laid down the following ruling:

Her Majesty’s Government have the right to consider opposition by the official members of the Legislative Council to its settled policy as
incompatible with retention of office, and I am equally of opinion that they are bound to do so, to support by their votes, and not to oppose by any public act, a policy which may originate with the Governor. 4

Cardwell’s ruling followed normal British practice, by which the members of a government are expected to support its measures in the legislature or else resign. A career official in the Hong Kong civil service thus has little choice—he can voice his opposition in private or else resign.

Since Cardwell’s ruling, the official majority in Legislative Council has always voted as a body in support of the measures of the colonial administration. The Governor’s tie-breaking vote means that no official government measure may be voted down in Legislative Council without the Governor’s concurrence. The Crown can also disallow any ordinance of the Legislative Council through the Secretary of State. In the last analysis, then, the Legislative Council is powerless to withhold its consent from legislation proposed by the official bureaucracy, and rarely does it show an inclination to do so.

Clause XXIII of the Royal Instructions grants authority to the Legislative Council to draw up standing rules and orders for the regulation of its own proceedings; these were introduced on 9 October 1968 and rely heavily upon British parliamentary procedure. Proceedings in the Legislative Council are decidedly dull, and apart from an occasional controversial issue scheduled for discussion, the public rarely occupies even ten of the hundred or so seats reserved for the general audience. Public debate is generally muted, and the body takes on the appearance of a rubber stamp—official motions are unanimously accepted with little comment.

But is this rubber stamp caricature of the unofficial members fair or accurate? What about the impact of the unofficials: are they rubber stamps or the "tribunes" of the people? One prominent unofficial member strongly challenged the presumption of rubber stamp:

I have never been intimidated in the ten years I have served, nor was it ever suggested how I should vote. As a group the unofficials have power, but they must be willing to use it. Their use of constitutional power is more a matter of individual taste, not a feature of the system.
On one occasion, for instance, the unofficials were ready to propose that Finance Committee proceedings be opened to the public eye, but the appointment of two new members with different opinions [they were not appointed for this purpose] prevented the unofficials from taking a unanimous stand.

Despite this claim of unofficial members' influence and power, the broad consensus appears to assign a generally formal and passive character to unofficial participation in legislative and financial policy. If anything, the Governor and his officials probably outdid themselves, unnecessarily, to consider the views of unofficial members most seriously.

*The Finance Committee*

Standing Orders (No. 60) provide for only one standing committee of the Legislative Council—the Finance Committee, which is really the central element in the legislative evaluation of the government's annual budget. Membership is clearly prescribed: the Colonial Secretary (as chairman), the Financial Secretary, one other official member nominated by the Governor, and all the unofficial members. All matters before the committee are decided by a majority of voting members, but no ex officio member or official member has a vote. All proposals involving the expenditure of public funds routinely go to the committee, where they are usually approved before presentation to the full meeting of the Legislative Council. Committee meetings are held in private, and proceedings are not published.

The 1958 granting of financial autonomy to the colony considerably enhanced the constitutional power of Finance Committee, but its private meetings make its influence hard to determine. Do the unofficials have any say in Finance Committee proceedings? One prominent unofficial insisted that “Finance Committee meetings were indeed most lively affairs.” This view is shared by one of its occasional official members, who said, “Unofficials do their homework pretty carefully, but especially concentrate on areas akin to their own professional interests. It is amazing how they get through so much paperwork.”
Constitutional and Administrative Framework

Still, according to basic parliamentary government, only the executive can propose expenditure, and only the legislature can authorize expenditure. Members of the Finance Committee, and its two subcommittees, the Establishment and Public Works Subcommittees, only see items for approval if they are proposed by the administration.

A speech by K. S. Lo during a February 1971 meeting of the Legislative Council reveals the limits of constitutional power given to the unofficials in Finance Committee. This unofficial suggested, in his speech, that he and his colleagues should be empowered to introduce financial measures into Legislative Council meetings. He claimed:

It is only the Financial Secretary who can initiate proposals for financial expenditures, and he determines the priorities of projects. What comes before the Finance Committee has been carefully vetted by him and the Finance Branch, and unofficial members have only the negative power to refuse to approve an expenditure.⁵

Unofficials who sought to extend their role in Finance Committee deliberation were given periodic reminders of the limits of their constitutional authority. One member remarked that he was “frequently told directly by Sir John Cowperthwaite that unofficials have only the power to reject or approve proposals put to them—they do not have the power to propose.”

Impressions cannot substitute for quantitative analysis, but the bulk of the impressionistic material converges on the compliant role of the unofficials. It is also evident in the workings of the Public Works Subcommittee and the Establishment Subcommittee, which screen nearly two-thirds of all government spending proposals.

Public Works Subcommittee

The Public Works Subcommittee of Finance Committee meets, on the average, three times a year. Each session reports on a different area of public works expenditure—buildings, engineering, and waterworks, though some overlap takes place. Projects in the public works program are arranged in the following categories:
Category A: Projects for which authority has been given to create a subhead, to proceed with working drawings, and to call for tenders.

Category B: Projects for which planning has commenced or may commence during the coming estimates year.

Category C: Projects conforming with approved policy or otherwise meriting adoption, which may be expected to enter Category B within three years.

Category D: Projects which are estimated to cost less than $500,000 and which could be proceeded with when opportunity offers.

Category E: Building projects which are urgently required and are estimated to cost less than $500,000.

Before they are reviewed by the Public Works Subcommittee, proposals are considered by the building vetting committee, the engineering vetting committee, or the waterworks vetting committee. Members of these committees include a Finance Branch officer, the Public Works Department Director, and other involved civil servants. The Building Priorities Committee, the Roads Committee, and the Transport Advisory Committee also consider the projects prior to subcommittee review. The Public Works Subcommittee is chaired by the Financial Secretary, who, in practice, has the last word on what goes on its agenda.

In addition to the thrice-yearly reviews, a circular system was implemented in the late 1960s when the Director of Public Works complained of months’ long delays between formal review sessions of the subcommittee. The circular system is especially useful for upgrading project status between categories C, B, and A. One officer with firsthand knowledge of the Public Works Subcommittee circular system commented that “sometimes unofficials check items for discussion, but rarely do they reject them.” From the standpoint of the unofficial:

We haven’t much time to look at all these Finance Branch papers. Also, circulars for Public Works Subcommittee of Finance Committee are too frequent. It is only human nature to look after your own affairs when you are overworked. I’m not always happy with the
papers, but I have no time to object to each point. I spend two full nights weekly just looking through these papers.

Public works expenditures often constitute as much as one-third of annual government expenditure. About half of all annually recurrent expenditure—nearly another third of the budget—pays the salaries of Hong Kong's civil servants. Responsibility for authorizing this expenditure lies in the Establishment Subcommittee.

**Establishment Subcommittee**

The Establishment Subcommittee of Finance Committee, originally known as the Staff Increases Subcommittee of Finance Committee, was formed in July 1961 to examine the personal emolument requests presented in the 1962-63 estimates. The subcommittee performs two major tasks today:

1. **It** advises the government whether preliminary proposals for the provision of additional posts or retention of supernumerary (one-year) posts should be included under the personal emoluments subheads of the draft estimates of expenditure.
2. **It** examines all supplementary proposals put forward by government during the financial year for the creation of posts or for regrading existing posts with increased expenditure, in addition to posts contained within the estimates, and it makes recommendations on them to Finance Committee of Legislative Council.

The Establishment Subcommittee is composed of four unofficial members of the Legislative Council, one of whom serves as chairman, and two government officials, usually the Establishment Secretary and Deputy Financial Secretary. In addition, the subcommittee is served by a secretary, who has often held the post of Principal Assistant Financial Secretary in C division, a wing of Finance Branch in the Colonial Secretariat.

C division examines all requests made by heads of departments for additional posts to be included in the draft estimates or for
alterations in numbers or grading of posts which appear in the approved estimates. After completing its examination, it prepares papers and submits them in draft form to the chairman of the Establishment Subcommittee, who in turn circulates them for consideration by the remaining members. If approved, papers are then placed on the agenda for the next meeting of Finance Committee, which invariably follows the fortnightly Legislative Council sittings. The Establishment Subcommittee does not have regularly scheduled meetings, but meets only as required.

Each year the Report of the Establishment Subcommittee of Finance Committee comments on the number of supplemental papers considered (aside from the draft estimates) and reports the actions taken on those requests; it also reports the number of additional department posts authorized for inclusion in the draft estimates, compared with the total number requested. Table 7 shows, convincingly, that initial departmental requests for new posts are thinned by the subcommittee, in some instances dramatically, though many of these posts are later filled by approval of supplemental requests.

Table 7

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Request for Inclusion in Draft Estimates</th>
<th>Approvals</th>
<th>Supplementals</th>
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</thead>
<tbody>
<tr>
<td>1973–74</td>
<td>5,358</td>
<td>3,430</td>
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</tr>
<tr>
<td>1972–73</td>
<td>7,190</td>
<td>3,450</td>
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<tr>
<td>1971–72</td>
<td>4,155</td>
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</tr>
<tr>
<td>1970–71</td>
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<td>2,366</td>
<td>a</td>
</tr>
<tr>
<td>1969–70</td>
<td>2,000</td>
<td>972</td>
<td>a</td>
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<tr>
<td>1968–69</td>
<td>3,297</td>
<td>2,128</td>
<td>a</td>
</tr>
<tr>
<td>1967–68</td>
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<td>1,206</td>
<td>1,128</td>
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<td>1964–65</td>
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</tr>
<tr>
<td>1963–64</td>
<td>5,038</td>
<td>2,866</td>
<td>a</td>
</tr>
</tbody>
</table>

*Supplementary approvals were not summarized in that year’s report.

Sources: Report of the Establishment Sub-Committee of Finance Committee (Hong Kong: Government Printer), for the years 1963–64 through 1972–73.
Does the pruning of requests in the subcommittee’s annual statement represent the decisions of C division officers in Finance Branch, the objections of unofficial members, or some interaction between the two? One participant to subcommittee proceedings said:

I served for _____ years with the Establishment Subcommittee of Finance Committee. During _____’s chairmanship, meetings were called only twice in the course of the entire year. Since _____ took the chairmanship, no meetings at all were called. I had a good relationship with _____, who was, of course, a very busy man. As to the procedure, the chairman of the subcommittee would approve papers for circulation to the other unofficials. If he rejected the paper, the other three unofficials never saw it. In practice, they almost never reject papers.

One must not cast judgment on the quality of government proposals in the light of unofficial compliance. One executive officer with C division insisted that “Because we have no representative government, we must bend over to make sure the thing is done right—that it will stand up on its own.” The same official attributed too much slackness on the part of the unofficials: “We wish that unofficial members of the Establishment Subcommittee would catch some of the smellier proposals put up by departments that we have, under pressure, gone along with even if we thought them incorrect.”

Pruning of establishment requests reported in the annual statement of the subcommittee, then, is chiefly attributable to the shears of C division officers and their Finance Branch superiors. An official recounting is usually presented in the report’s penultimate paragraph; the 1971–72 report, for example, reads as follows:

Departments asked for over 7,190 posts for inclusion in the Draft Estimates, a greatly increased number compared with the previous year. Of these, 3,450 have been included. Of the remainder, some were rejected, some were withdrawn by the departments concerned after discussion with the relevant branches of the Secretariat, and others were deferred for more detailed investigation outside the context of the Estimates.7 (italics mine)
Put another way, the excluded requests rarely reach the chairman and unofficial members of the subcommittee for their consideration.

My interviews uncovered a consensus among the unofficials on one point, namely, that the time required to do a thorough job ranged from ten to thirty hours per week, which is nearly a full-time job with no official remuneration save prestige and influence. If the Finance Branch does indeed "put things right," there should be little else for the unofficials to do but vote approval for government proposals. On occasion they may express an inkling of independence; as one unofficial told me: "The unofficials were piqued when Haddon-Cave [the Financial Secretary] lectured them, so they refused a specific motion for funds in yesterday's Finance Committee meeting."

This, however, is not a common occurrence. The constitutional power of the unofficials, as seen in practice, was evaluated by one observer of these sessions: "At Finance Committee meetings the unofficials are largely rubber stamps. They invariably raise minor points instead of coming to grips with the major issues."

Apart, then, from minor accommodative adjustments in establishment, public works, and other expenditure proposals put forth by government to Finance Committee and its two subcommittees, virtually all government decision making transpires within the Colonial Secretariat. Competent government performance perhaps needs only ratification from the unofficials.

The Colonial Secretariat

The Secretariat has recently been reorganized along the lines drawn up by McKinsey and Company as presented in their May 1973 report entitled "The Machinery of Government: A New Framework for Expanding Services" (see Chapter 6). Here I examine the role of the Secretariat in its constitutional duties prior to reorganization, in order to identify the leading elements in the power structure, both in the making of policy and the spending of public monies. In an effort to abstract the constant features of this dynamic institution, I concentrate on the late 1960s and early 1970s until reorganization, though it must be kept in mind that the Secretariat
was not a static environment, but a continuously evolving institution of government.

Overall, the Colonial Secretariat is responsible for the coordination of the whole bureaucratic structure. Responsibility for the workings of the Secretariat, along with each branch and department of the public service, resides in the Colonial Secretary, the designated head of the civil service. Within the Secretariat is also one other officer of full secretary rank, the Financial Secretary. Although he ranks second in seniority to the Colonial Secretary, he is, within his own sphere, responsible directly to the Governor. These two secretaries hold the highest positions in government and may often advise the Governor on policy matters. Personality factors dictate, of course, how extensively each secretary participates in day-to-day administration within the Secretariat, or how far each will withdraw to concentrate on broader issues of policy.

The Secretariat is divided into three main divisions: (1) general, including establishment; (2) defense; and (3) financial and economic. The Deputy Colonial Secretary's job is to coordinate all the branches of government, to insure the smooth working of the administration, and, most importantly, to directly supervise the general division within the Secretariat.

This division comprises several distinct "policy" branches: the important ones have been Buildings and Lands, Social Services, Establishment, and a catchall known as General Branch. (These are not officially titled policy branches, hence "policy.") Each of these branches is directed by a Principal Assistant Colonial Secretary (P.A.C.S.) whose ostensible responsibility is to screen departmental policy proposals, coordinate departmental policies, and facilitate the work of departments. Branch heads must also coordinate their activities with the Finance Branch to insure that departmental proposals are fully justified, given the ever-present competing demands for scarce resources.

The defense division is the responsibility of the Defense Secretary, who reports to the Colonial Secretary. His division oversees local defense forces and provides governmental link with the regular British troops stationed in the colony. From the standpoint of the policy-making and budgetary processes, his role is relatively unimportant.
The financial and economic division is directed by the Financial Secretary. Although each part of the division is headed by a deputy, the Deputy Financial Secretary is generally considered one notch higher in status than the Deputy Economic Secretary. The Economic Branch not only supervises those government departments which provide economic services directly to the public, such as Agriculture and Fisheries, the Kowloon-Canton Railway, Commerce and Industry, but it also oversees the whole field of financial and economic policy. Finance Branch devotes much of its efforts to the preparation of the *Estimates of Revenue and Expenditure*.

No other offices of the government play a significant role in overall policy making or budgeting; the important actors are, in order of official status, the Colonial Secretary, the Financial Secretary, the Deputy Colonial Secretary, and the five major "policy" branch heads (including Economic Branch).

**The Colonial Secretary**

Officially, the Colonial Secretary serves as a kind of chief of staff to the Governor and, under his direction, carries on the general administration of the government. He sits on Executive Council, chairs Finance Committee meetings, and constantly communicates with the Governor. Apart from the Governor, he is the one man with sufficient rank and standing to openly disagree with the Financial Secretary.

What has been the historic reality of Hong Kong’s recent Colonial Secretaries? One acting Colonial Secretary reminisced on his experience:

The Colonial Secretary virtually never became involved with the Financial Secretary. Although in theory there should be a good deal more intertwining between the two men and their aides, in fact the Financial Secretary was a virtual autonomous dictator in matters of expenditure, and hence, policy. At times, heads of department sought aid and comfort from the Colonial Secretary in their continuing friction with the Financial Secretary, but this was more the exception
than the rule. In all matters of irreconcilable disagreement, the Governor was called into the picture and, as often as not, the Governor would side with the Financial Secretary.

Another officer with considerable service inside the Secretariat was not enthusiastic about the men who served as Colonial Secretaries during the past ten years:

The Finance Branch of the Secretariat ran the government by default throughout the 1960s. Although Claude Burgess was a competent Colonial Secretary, his departure in 1963 weakened the general division of the Secretariat. Apart from Burgess, no one could keep Sir John Cowperthwaite in line. His brilliance and argumentation prevailed, and he thus made policy by ruling on all items of expenditure.

A staff grade officer, who had served both in the Finance Branch and in the general division of the Secretariat, summarized his experience on the influence of the Colonial Secretary:

Personality is a most important factor, given the strategic location of the Finance Branch in Hong Kong’s constitutional system of centralized control over spending. After Claude Burgess, the Colonial Secretary was weak. Although I’ve served in Finance Branch, now that I’m on the other side of the fence, I can see the other side of the problem.

But perhaps the Colonial Secretary’s role is really more one of a “Lieutenant Governor” rather than that of an administratively active chief of staff. He must also reserve for himself that measure of dignity which allows him to act in the Governor’s absence during certain portions of the year. One Colonial Secretary explained his position this way:

At one of our Secretariat meetings, one branch head asked me when I was going to bring the Financial Secretary to heel. I tried to explain that the Financial Secretary and I each have our own functions and that *it is not my job to override him in his areas of responsibility.* (italics mine)
The Financial Secretary

In addition to his responsibility for preparing the annual budget estimates, the Financial Secretary and his aides are heavily involved in wide-ranging activities which bear upon the fiscal health of government and the economic health of the colony. Any government policy with fiscal or economic implications must involve the Financial Secretary. Given that Hong Kong’s economy is open at both ends, with the great bulk of its manufactured goods exported and its consumer goods imported, any policies that tinker with the fiscal or monetary system of Hong Kong could have dangerous economic repercussions. The Financial Secretary must, in Hong Kong’s economic circumstances, be a key policy maker; he is, by definition, the master of the budgetary process.

What kind of men have sat in the Financial Secretary’s seat? One prominent journalist praised the abilities of these men of finance, particularly Cowperthwaite:

The competence of the man is what is important, not his official position. Unless a department head or branch head is able to mount a good case, the superior intellect and strength of argument available to the Financial Secretary will give him the commanding edge. . . .

Cowperthwaite had a clear desk with no files; he had plenty of time to think. Few were his equals in either intellect or initiative. He invariably had his way with the departments.

Did final say on budgetary allocations really dominate policy making, or was the budget merely the vehicle through which funds were appropriated for the implementation of public policy? An exceptionally distinguished civil servant was most candid on this question:

Throughout Cowperthwaite’s regime, the budgeting tail wagged the policy dog. Even assuming something resembling an official policy were promulgated and department heads were given clear mandates to spend at certain increased levels, it would still be necessary to get approval for each new staff member, piece of equipment, furniture, or whatnot.
The constitutional basis of centralized finance, conjoined with Cowperthwaite's intellectual skills, afforded his arguments clear dominance within the Secretariat and the policy-making councils. Views on his performance and abilities are freely voiced. For example:

Cowperthwaite was brilliant, well-trained in economics, suffered no fools, and was highly principled. He wouldn't last 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.

Another said: "The relative strength of different departments in the Secretariat is a matter of personalities. And Cowperthwaite was both strong and bright." And an even more emphatic evaluation by a junior Chinese administrative officer left no doubts: "Cowperthwaite was brilliant." From the department perspective, "Cowperthwaite controlled the purse strings and decided priorities." Yet it was precisely this all-powerful central financial control which underpinned one administrative officer's exclamation: "We owe our prosperity to one man—Cowperthwaite." And one recently retired staff grade officer added: "Although the Colonial Secretary, in principle, ranked above the Financial Secretary, not even Burgess could control Sir John." One must note, of course, that although the Colonial Secretary ranks above the Financial Secretary in hierarchical terms, the Colonial Secretary cannot overrule the Financial Secretary on any matter involving finance or economics. Each holds ultimate authority in his respective sphere of responsibility, and only the Governor can overrule him.

Has the succession of Philip Haddon-Cave as Financial Secretary and the appointment of Sir Murray MacLehose as Governor weakened the Financial Secretary? According to one professional officer's evaluation: "Haddon-Cave still holds the reins of power and doesn't want to let go." By and large, the majority of my respondents assert that Haddon-Cave is the most competent and brilliant civil servant in Hong Kong since Cowperthwaite's retirement.
Was it possible for a recalcitrant head of department to circumvent or overturn a decision of the Financial Secretary? A senior Chinese professional officer relayed his experience: "I can go to the Financial Secretary to fight for my case, but must usually accept his judgment. I can’t really use the Governor to apply pressure since that will only sour relations with the Finance Branch and worsen matters in the long run."

To gain a full perspective on the power structure within the Secretariat, the role and behavior of the "policy" branches and the Finance Branch must be fitted into the mosaic.

*The "Policy" Branches*

Five of the "policy" branches are of special significance: Buildings and Lands, Establishment, Social Services, General, and Economic. In addition to wide-ranging duties, each branch head is responsible for expert knowledge about and coordination of the policies that his departments propose and implement. In general, the "policy" branches are directed by administrative grade officers of at least the rank of P.A.C.S., except for the Clerk of Councils, who holds a lower rank and is responsible for various constitutional formalities within government. Each branch head takes primary responsibility for screening submissions put up by department heads. Screening involves assessing weak points, suggesting revisions, and trying to steer proposals for new or expanded policies through the murky waters of the Secretariat, until the proposal finally receives official sanction. Responsibilities for departments are distributed to the branches as follows:

Buildings and Lands Branch: Public Works Department, Housing, Resettlement.
Councils Branch: Immigration, Judiciary, Legal Department, Legal Aid Department, Registrar General.
Economic Branch: Agriculture, Fisheries and Forestry, Civil Aviation, Kowloon-Canton Railway, Traffic Branch (Police), Transport Department, Census and Statistics, Commerce and
Constitutional and Administrative Framework

Industry, Marine.
Establishment Branch: Civil Service.
General Branch: Secretariat for Home Affairs, New Territories Administration, Urban Services and Urban Council, Information Services Department, Radio Hong Kong, Post Office, Printing Department, Fire Services Department, Hong Kong Government Office in London, Royal Observatory.
Social Services Branch: Universities, Polytechnic, Education, Medical and Health, Prisons, Labor and Trade Unions, Social Welfare.

Each of these branches has been in existence since 1961, except Social Services, which was established in 1969. I have omitted the Defense Branch; the Councils Branch is also relatively unimportant to budget processing.

Buildings and Lands, Establishment, General, and Social Services wear only one hat, that of a policy and coordinating liaison between the departments and the policy and financial approvals respectively required from Executive Council and Finance Committee of Legislative Council. Medium-term public-service planning in Hong Kong is a relatively recent development, however, and the publication of “white papers,” for example, The Five-Year Plan for Social Welfare Development in Hong Kong, 1973–1978, or “green papers,” proposals for official plans, was not routine practice in the early Cowperthwaite years. Cowperthwaite began to request departments to prepare five-year forecasts of expenditure from 1962, but still no integrated plan covered the whole field of public expenditure.

The social and economic situation of the postwar years made programing within a policy difficult. Moreover, such postwar urgencies as, for example, refugee resettlement, occupied great official effort and expenditure. Thus “policy” branch evaluation of departmental submissions was often done on an ad hoc basis, with nothing but precedent and common sense to guide the branch head.

The lack of official long-term programs was recognized by the branch heads, and it caused doubts about the role of the P.A.C.S. in the Secretariat. One branch head expressed his experience during the 1960s:
The Deputy Colonial Secretary chaired a weekly meeting of branch heads, during which we often discussed the role of the Principal Assistant Colonial Secretary post. We particularly explored the issue of policy making by P.A.C.S. staff. As for me, the role has always struck me as rather ambiguous. He is, at best, a middle man.

The confusion caused by the absence of official guidelines was compounded, in the internal debate of the Secretariat, by at least three other factors: (1) low status of branch heads, (2) high turnover of branch heads compared with Finance Branch continuity, and (3) judgments of less-talented branch heads.

Most branch heads have been staff grade B1 or B2 officers; the only higher ranks are staff grade A and the secretary level both held by the Financial and Colonial Secretaries. The Buildings and Lands, Social Services, and General Branches were mainly directed, until 1972, by staff grade B2 officers. Only the Establishment Secretary holds a staff grade A ranking, but he is not heavily involved in government policy making. Thus in the words of one P.A.C.S.:

The policy officers in the Secretariat at grade B2 were three notches below the Financial Secretary and two notches below those heads of department at grade A rating. When a request came up from a department through these policy committees [branches], they were often forwarded directly to Finance Branch with a covering memo that read “no policy objections.” At that time, the request got the fine screening inside Finance Branch.

This theme was echoed by an officer in Economic Branch who noted that a staff-grade B2 officer was not likely to fight very hard or persistently with a man of Cowperthwaite’s ability. But a young Chinese in Finance Branch saw the matter somewhat differently: “Personalities play an important role in getting what you want. Some chaps are willing to sit back and not do very much. We then become unpopular in prodding them to get off their fannies.”

The high turnover of branch heads can be equally troublesome, since it might take more than six months to become familiar with the files of each department under the coordination of the respective “policy” branches. General Branch has had the least continuity of leadership: ten different officers held its P.A.C.S. post in the past
twelve years. Three different heads have led Social Services Branch in its brief history since 1969. Buildings and Lands, a complicated field in which the Colonial Secretariat needs continuity to carry out a substantial executive function, has endured only three changes of leadership since 1961. Establishment had six turnovers. Although Economic Branch has seen eight Deputy Economic Secretaries, its close supervision by the Financial Secretary has insured continuity of policy and procedure.

The third factor which compounds the lack of official guidelines is objectively difficult to substantiate—the competence of branch heads in comparison with Cowperthwaite and the Finance Branch staff. One evaluation went this way:

A major problem in Hong Kong is that people here are, at best, of B+ quality, instead of A or A−. Those who personalize the Financial Secretary, who cite personality as a difficulty in getting on with Finance Branch, were neither terribly intelligent nor competent.

The Economic Branch

The Economic Branch has been headed by a Deputy Economic Secretary, whose role was described in 1973 by one member in Economic Branch as follows:

The Economic Branch could be said to have two separate jobs. First, it provides general advice to the Financial Secretary on all matters of economic policy, regardless of which department in government may be involved. Second, it coordinates the policies of the specific departments under its jurisdiction.

How much authority does the Financial Secretary delegate to his chief economic deputy? The same economist continued:

The Financial Secretary delegates considerable autonomy to his chief deputies; they generally bother him only with major items, but since he has to examine the agenda before Finance Committee meetings, he has an opportunity to object to or discuss any action taken by his deputies or their staffs on expenditure or economic matters.
When wearing his economic hat, the Deputy Economic Secretary has two chief assistants who often have professional economic training. Working under them are a number of younger specialists, including perhaps an economist or two. As well, professional economists may be seconded from the United Kingdom for two-year contract periods. [There were no professional economists during the Cowperthwaite regime.] The secretary and his staff thus take under their wings consideration of all the economic activities of government; they get involved in questions of fee-paying services, rates of return from such capital investments as, say, double-tracking the Kowloon-Canton railway, appropriate passenger fares, the economics of various methods of rationing road space, hypothetical consideration of air-conditioned VIP railway cars, the economic benefit of an anti-pollution launch, and so forth.

Recall that each “policy” branch in the Secretariat coordinates a specific subset of government departments. What grounds determine which departments fall under the rubric of Economic Branch? According to the economist:

Departments are under the Economic Branch of the Secretariat, under the Deputy Economic Secretary, presumably because they service a direct economic function to the people, although, admittedly, the grounds for which departments are included here are a bit arbitrary.

What does the nitty-gritty administrative routine of Economic Branch consist of? At what level are its interpersonal dealings with departments of government conducted? On the administrative side of Economic Branch activities, one young officer described his daily routine in the following terms:

Usually initiatives will come from the departments in the form of a memo to Economic Branch. One of our five specialized assistants, who should be on top of matters for that department, will accept the memo, raise questions about it, and perhaps ring a member of the department. He should be on a first-name basis with at least the deputy director of the department. After a series of consultations, the assistant and departmental representative will submit the matter to the Deputy Economic Secretary. Very often a counterpart person
from Finance Branch will be involved in the proposed policy, especially if it is necessary to work out rates of return from capital investment.

How are subordinates in Economic Branch monitored?

Routine meetings take place between the deputy head of department and one of the Assistant Economic Secretaries monthly, or even fortnightly, depending on the department in question; moreover, department heads will meet with the Deputy Economic Secretary routinely to insure that neither set of subordinates are responsible for delays or inefficiencies. So, the Deputy Economic Secretary has direct access to any information in the departments under his jurisdiction through his Assistant Economic Secretaries and the Assistant Secretaries. This is a simultaneous system of checks and balances.

Throughout my discussions, it was repeatedly emphasized that Economic Branch staff work closely with Finance Branch officers, especially when an expansion of economic services is proposed. We discussed the building of a hypothetical second track from Kowloon to Shatin, which would presumably double the potential volume for freight delivery, especially of goods from China. The calculation, as explained to me, proceeded as follows: would the earnings from additional freight charges paid to the railroad be sufficient to repay the capital investment at an average annual rate of 7 percent over thirty years? (The 7 percent figure was selected in order to approximate market rates of interest.) The answer is yes, but the right of final approval belongs to the Governor and his Councils.

Some heads of department do not subscribe to this rosy image of branch head/department head cooperation. One head bitterly complained of his difficulties in negotiating any of his proposals with the Economic Branch:

Dealing with the Secretariat is like running into a wall of feathers. The biggest problem is the delays—things take too long. In my case, I can’t prod the Deputy Economic Secretary to reach a decision. Even going over his head to the Financial Secretary is no use. I’ve been waiting two years to get approval to build _______ with little success. Indeed, five months alone were wasted when they finally admitted having lost the files.
The Economic Branch is not a "policy" branch in the Secretariat sense of the term. Although it coordinates the activities of a specific set of departments, it is under the control and direction of the Financial Secretary, because its responsibility covers the overall economic policy in the colony. It is eminently reasonable that the Financial Secretary should maintain a special relationship with a number of departments dealing with financial and economic matters.

**The Finance Branch***

Many officials in government, when referring to the fifth floor of the Secretariat, use the phrase "the all-powerful Finance Branch." Day-to-day administration is directed by the Deputy Financial Secretary. He coordinates preparation of the draft estimates, authorizes increases in departmental budgets (within specified limits), chairs several committees, and sits as a member on other committees concerned with finance. He is aided by two Principal Assistant Financial Secretaries (P.A.F.S.), one of whom concentrates on establishment costs—P.A.F.S.(2)—with the other concerned chiefly over nonstaff-related costs—P.A.F.S.(1).

All nonstaff-related costs are split into two categories of expenditure: A division and B division. A division oversees the financing of security and general services under the general direction of Assistant Secretary (F)1, and social services under Assistant Secretary (F)2; these two men report to the Assistant Financial Secretary (A). The structure for B division is comparable. An Assistant Financial Secretary (B) oversees Assistant Secretary (F)3, who is responsible for economic services, Assistant Secretary (F)4, in charge of public works, and Assistant Secretary (F)5, who monitors the remaining departments.

C division, mentioned earlier, concentrates on establishment costs. It is directed, at the highest level, by a P.A.F.S.(2), who then delegates coordination and control of complementing and grading, along with establishment control activities, to his Assistant Financial Secretary (C). Complementing and grading is, in turn, par-

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*This description is based on the structure in effect in 1973.
titioned into eight departmental units which comprehensively evaluate staff and upgrading requests for every government department. Each unit is commanded by a senior complemen­ter and grader, usually of senior executive officer rank, and these eight unit directors are responsible to the Assistant Financial Secretary (C) through one of three chief complemen­ters and graders. On average, three officers are assigned to each of the eight complementing and grading units within C division; within these units the nitty-gritty of government finance is debated, hashed out, evaluated, and determined. Section directors serve at least seven years continuously within Finance Branch and come to know the internal financial requirements of departments far better than department heads or Treasury accountants seconded to those departments.

Thus, the hierarchy of Finance Branch is as follows: Financial Secretary, Deputy Financial Secretary, two P.A.F.S.'s, three Assistant Financial Secretaries, five Assistant Secretaries, a number of staff assistants for general administration, and a substantial number of complemen­ters and graders. Rounding out Finance Branch are the Data Processing Division, the Cost Investigation and Control Division, and the Common Estimates and Common Services sections. It is, manifestly, a large and well-structured branch of the Secretariat. It dwarfs in size, scope, and importance the "policy" branches. (Recall, also, that Economic Branch is an arm of the Financial Secretary.) The expansion of the Secretariat has been quite dramatic in recent years, growing more rapidly than the corresponding rate for the remainder of the public service, and Finance Branch has kept in step.

Recall that authority for making policy is vested in the Governor and his councillors. Although suggestions, submissions, and proposals originate within departments, or, more recently, within the Secretariat’s "policy" branches, final approval is reserved for His Excellency and his Executive Councillors. Finance Branch is, or should be, the mechanism through which approved policies are funded for implementation. No new policies are to be made either in the department’s annual submission or through supplemental requests.

Finance Branch, then, acts in three distinct capacities: (1) advice to departments on the feasibility and financial implications of pro-
posed policies, (2) preparation of papers to seek Finance Committee approval in light of these financial implications, and (3) preparation, in conjunction with the departments, of the annual estimates of expenditure and revenues to carry out the government's official policies for the forthcoming fiscal year. All finance in Hong Kong is centralized: although Finance Branch consults with the departments before preparing papers for Finance Committee approval, the substance of the papers may not necessarily have the department head's full concurrence.

Not all department heads relish this system of centralized finance. One complained:

Though [my department] makes a substantial profit annually for government, I am not allowed to behave like a private firm and reinvest profits in facilities that make for better service to the public. All proceeds go to the Treasury and all my operating funds derive from appropriations.

But the rationale for centralized finance can be given an economic justification. According to one chief executive officer:

We can take the broader view. A department head sees the world only as his department, especially if he is a professional officer and not an administrative officer. We have to coordinate activities between departments, since a spending program for one might have implications for other parts of government. We are the watchdog for the public.

Finance Branch is especially watchful that no financial request constitutes, in fact, a new policy of government. A senior executive officer in one of the eight complementing and grading units recounted a frequent experience: "Sometimes a department will try to slip a request through without prior policy approval. We usually catch it and either pass it to the policy branch or back to the department." A higher-up in Finance Branch voiced its official position unequivocally:

Finance Branch does not make policy. Policy papers are put up to Executive Council, following which they are then given expenditure forecasts for about five years and sent to Finance Committee for their
approval in broad principle. On the basis of the principles enunciated in these approved policies, the department asks for what it thinks it needs to implement policies in its annual estimates request. *The department is forbidden to make policy in its annual estimates preparation.* (italics mine)

Finance Branch and its leader, the Financial Secretary, have played an increasingly crucial role in government since about 1935, when the colony’s financial and economic affairs began growing in complexity and importance. Since 1960, high turnover, low status, and questionable appointments in the Secretariat have muted its influence over the Financial Secretary’s budgetary (and policy) inclinations. Colonial Secretaries have generally minded their own business, and Governors have properly delegated financial authority to the Financial Secretary. One Assistant Financial Secretary’s view of his own job went as follows:

We have this “image.” It makes our job easier, because departments and policy branches don’t put up proposals that they think will be criticized or scrutinized very deeply. But that is their responsibility, not ours. We are doing our job; they are just not doing theirs. We never refuse any reasonable request.

He added the following challenge:

When you see policy branch people, ask them if Finance Branch has ever refused a request, any request, much less a reasonable request. Sure, we’ve made some modifications in their proposals, but have we ever refused one of their requests?

I noted throughout my interviews that Finance Branch personnel speak with one voice, subscribe to the same value-for-money ethic, and reveal virtually no internal dissension.

*The Departments*

There are about forty government departments, each responsible within its sphere for administering ordinances and carrying out the
specific administrative duties with which it is charged. In general, the departments initiate legislation and proposals for action. Their funds are provided exclusively from general revenue, whether or not a department earns revenues from the services it provides the public, and each department must prepare its own departmental estimates of expenditure.

On any important, complex, or new matter, a government department which is considering the introduction of a particular program or a raise in the quality of existing programs must have its proposals evaluated by the Governor and his Executive Council. On less important matters, Secretariat approval generally suffices.

Table 2 (see chapter 2) enumerates the government departments that were lawfully authorized to expend public funds in that year. On occasion, new heads will be added, or two or more heads will be merged into larger spending units. In recent years, the Finance Branch has summarized government expenditure patterns by function, not by department. The 1972–73 budget estimates classify government expenditure according to the following functions, which correspond closely, but not identically, with each department’s activities:

General services: administration, law and order, defense, public relations, revenue collection, and financial control.
Economic services: primary products, airport and harbor, commerce and industry, communications.
Community services: transport, roads and civil engineering, water, fire services, and amenities.
Social services: education, medical and health, housing, social welfare, labor.
Common supporting services: government launches and dockyard, government printing, government supplies, and architectural, electrical, and mechanical engineering offices.
Unallocable expenditure: government quarters, passages, telephones, telegrams, etc.
Other financial obligations: public debt, pensions, and gratuities.
Development loan fund expenditure: economic services, social services.
Lotteries fund expenditure: social welfare grants and loans.
Appendix XIV enumerates every reference in the estimates that pertains to these functional expenditures. The underlying idea for the new format is to garner, at a glance, the types of public service government provides and what proportion of public expenditure is given over to the respective functions of government. Beginning with the introduction of the 1973–74 budget, a graphic guide has been published for taxpayers’ benefit, which reveals government expenditure by function, both in dollars and percentages.

What is the policy-making role of the departments? Outsiders are often able to offer more detached descriptions or impressions than government employees, who either have special interests to advocate or simply a job to carry out. One representative of the media in Hong Kong was critical of many departments in his assessment of the policy-making process. Describing the routine procedure in which departments are supposed to draw up programs or policies, receive Executive Council and Finance Committee approval, and then seek annual funds for implementation, he surmised that: “Often the departments are laggard and suggestions for plans have to be asked of departments either by the Colonial or Financial Secretaries or by the Governor.” This same writer, though, was unable to articulate a theory of the policy-making process that would satisfy either the organization theorist or the public policy analyst. In his view: “Policy-making is best characterized overall as an ad hoc system of events, personalities, crises, or other factors, which must be understood only on a policy-by-policy basis.”

One high-ranking department head, recently transferred to the Secretariat, spelled out his philosophy and preferences as follows:

Policy making? I pretty much do what I like within the regulations. Ideally, the best thing is not to bother too much with the Secretariat. One should especially avoid getting involved with long-run plans that may tie you down. Look at the mess created in the Social Welfare Department—it took them seven to eight years just to generate a plan.

Another policy branch head in the Secretariat asserted that “responsibility [for policy proposals] lies with the departments. Our job is to screen the proposals they submit.”
I asked a number of department heads if they believed the departments initiated policy proposals, or if they had to be prodded from higher up. One deputy head with considerable Finance Branch experience responded:

Apart from acute external pressure, most policy formulations emerge from within the department. Very little is suggested from Secretariat personnel. On occasion our policy proposals will be rejected in the Secretariat, sometimes rightly so, but we undertake the initiative.

One head explained policy making for his department in somewhat more detail. A committee, chaired by a distinguished member of government, met repeatedly and drew up a five-year plan. "Since then, all estimate requests have had routine clear sailing." This view conforms with the official line of the Finance Branch, namely, that their job is only to authorize funds in light of approved policy. A similar observation was made by two other staff-grade officers. Each noted that Sir David Trench, when he was Deputy Colonial Secretary, took several weeks from his schedule and wrote a fire department expansion plan, which reduced its budgeting difficulties in subsequent years. But the consensus of department heads was that "policy making originates 100 percent within the department," and that failures by the Secretariat to move quickly on getting green papers out for public reaction simply reflect the government's low priority for specific types of policies. As a new, but high-ranking, appointee put it: "The system of government is set up so that you can run with the ball if you want to. The sad truth is that many department heads voluntarily castrate themselves."

We have dissected the Secretariat and tried to examine each element in the policy-making apparatus of the colonial government, ranging from the Governor at the top, to the department at the bottom, with the Secretariat serving as the middleman. The picture that emerges, I think, assigns a critical role to the Financial Secretary and his Finance Branch. Although the Governor may, in his public addresses, set forth priorities, initiative for specific policy proposals resides within the departments.
The Administrative Class

The colonial government’s public services contain administrative, executive, and clerical classes. The administrative class in the colonies, as in Britain, was an elite generally recruited directly from the universities. The term cadet officer denotes the administrative grade of officer in the Hong Kong government service until 1960; the 1959 salaries commission suggests in paragraph 166 of its report that the name cadet officer be changed to administrative officer, thus ending nearly one hundred years of official usage since the first three cadets arrived in the colony on 3 September 1862.

The very first cadets were supplied to the civil service in Hong Kong to act as interpreters, so they devoted themselves immediately to learning the Chinese language. By 1869 cadets were selected on the basis of a competitive examination. In 1896 the examination was joined to that for the Home and Indian Civil Services, an arrangement which lasted until 1932, when the method of selection was changed from competitive examination to interview. Even after that date, university men continued to supply the vast majority of the eastern cadetships.

The typical cadet came from a solid (though not rich) upper middle-class family, attended a public school (but not the most prestigious), and then went to one of the older universities (often Oxford or Cambridge), where he read classics or history. The background of the typical cadet thus fitted him for the type of job he was expected to carry out as a colonial civil servant in Hong Kong—the ability to handle a broad range of diverse tasks and a class feeling which helped maintain morale and discipline within the hierarchical service.

Early administrative routine set the pattern for today’s administrative class. There were only eight cadets in office in 1893, but they were shuffled from department to department for short periods of time and expected to master the details of their jobs in a matter of weeks. This was the tradition of “omnicompetent generalism”—
cadets were expected to do all things equally well. By the 1920s cadets had become entrenched in most government departments and filled all senior posts in the Colonial Secretariat. The exceptions were those departments which required someone with specialist knowledge, e.g., Medical and Sanitary Services, Public Works, Royal Observatory, and Marine. Until a Chinese officer was appointed in 1948, cadet service was a European monopoly.

**Ranks.** The administrative class is divided into two main levels, the “timescale” and the “superscale” or “staff grade,” with about eighty-five posts in the timescale and about fifty in the superscale. Timescale has two ranks: administrative officer and senior administrative officer; superscale has five: staff grades A, B1, B2, C, and Secretary status. (See Table 8.) Staff grade officers fill directorate posts in such departments as the Colonial Secretariat, the Secretariat for Home Affairs, the Commerce and Industry Department, the New Territories Administration, the Urban Services Department, the Labor Department, and Resettlement. Staff grade officers are the traditional source from which Secretaries for Home Affairs, Financial Secretaries, and Colonial Secretaries are appointed.

The great majority of timescale administrative officers are in the Secretariat for Home Affairs as City District Officers, in the New Territories Administration as District Officers and Assistant District Officers, and in the Resettlement Department, the Urban Services Department, and the Colonial Secretariat, where they fill a number of Assistant Secretary posts.

**Responsibilities.** The administrative class carries out duties which include:

(1) Coordinating and formulating policy for the administration of Hong Kong.
(2) Resolving conflicting objectives and priorities.
(3) Interpreting public opinions and public aspirations.
(4) Overseeing security considerations.
(5) Making economic policies and plans.
(6) Controlling the government machine, including the over 110,000-member public service.
(7) Servicing the Executive and Legislative Councils.

Administrative officers are especially concerned with the social and political content of government policies and programs. One of an officer’s main roles is to collate and analyze the various issues involved in the decision-making process, to relate these issues to political, economic, and social conditions, to recommend appropriate courses of action, and to oversee the eventual implementation of approved policy. The broad background, intellectual capacity (a good honor’s degree is the normal requirement), and versatility acquired through operating in a wide variety of government posts are supposed to fit these officers to a multiplicity of responsible tasks. Moreover, the administration of departments whose senior posts are filled by administrative officers, not professional specialists, is considered to be best handled by persons with their “generalist” background and experience, capable of applying their trained mind to and dealing with any situation. After the age of forty, however, they tend to specialize, especially when they have shown aptitude for finance and economics.

Sir Ronald Holmes provides a good example of the application of the “generalist” background to the wide variety of situations an administrative officer might be expected to deal with. He set up the Resettlement Department in 1954; he was chairman of the Urban Council from 1955 to 1957; he was District Commissioner for the New Territories administration from 1958 to 1962; he directed the Commerce and Industry Department between 1962 and 1966; he was appointed Secretary for Home Affairs in 1966; and he acted as Colonial Secretary on three separate occasions. He is the very model of a modern administrative officer.

Compared with the professional officer whose duties are confined mainly to his professional functions, the administrative officer is often faced with problems that require knowledge about a broad range of substantive issues. He is rotated from one job to another, often quickly, and must acquire a working substantive ability almost immediately. In times of crisis, it is usually the administrative officer who has to make the vital decisions, since it is he who fills the posts where these decisions are made.

Professional department heads display a bit of rivalry, animosity, jealousy, and downright hostility toward the administrative class.
<table>
<thead>
<tr>
<th>Staff Grade A</th>
<th>Department</th>
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<tr>
<td>Establishment Secretary</td>
<td>Colonial Secretariat</td>
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<tr>
<td>Deputy Financial Secretary</td>
<td>Colonial Secretariat</td>
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<tr>
<td>Commissioner of Labour</td>
<td>Labour Department</td>
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<tr>
<td>District Commissioner, N.T.</td>
<td>New Territories Adm.</td>
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<tr>
<td>Commissioner for Resettlement</td>
<td>Social Welfare Dept.</td>
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<tr>
<td>Director of Social Welfare</td>
<td>Urban Services Dept.</td>
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<tr>
<td>Director of Urban Services</td>
<td>Commerce &amp; Industry Dept.</td>
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<tr>
<td>Director of Commerce &amp; Industry (departmental post normally filled by an A.O.S.G.&quot;A&quot;)</td>
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<th>Staff Grade B1</th>
<th>Department</th>
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<tr>
<td>Deputy Economic Secretary</td>
<td>Colonial Secretariat</td>
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<td>Defence Secretary</td>
<td>Colonial Secretariat</td>
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<tr>
<td>Principal Asst. Colonial Secretary (Lands)</td>
<td>Colonial Secretariat</td>
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<tr>
<td>Commissioner for Census and Statistics</td>
<td>Census &amp; Statistics Dept.</td>
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<td>Commissioner for Transport</td>
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<th>Staff Grade B2</th>
<th>Department</th>
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<tr>
<td>Principal Asst. Colonial Secretary (Establishment)</td>
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<td>Principal Asst. Colonial Secretary (General)</td>
<td>Colonial Secretariat</td>
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<td>Principal Asst. Colonial Secretary (Social Services)</td>
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<tr>
<td>Principal Asst. Financial Secretary (1)</td>
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<tr>
<td>Principal Asst. Financial Secretary (2)</td>
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<tr>
<td>Deputy Defence Secretary</td>
<td>Colonial Secretariat</td>
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<tr>
<td>Deputy Director of Commerce &amp; Industry (Adm. &amp; Ind.)</td>
<td>Commerce &amp; Industry Dept.</td>
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<tr>
<td>Deputy Director of Commerce &amp; Industry (Comm. &amp; Rel.)</td>
<td>Commerce &amp; Industry Dept.</td>
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<tr>
<td>Deputy Commissioner of Labour</td>
<td>Labour Department</td>
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<tr>
<td>Deputy District Commissioner, N.T.</td>
<td>New Territories Adm.</td>
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<tr>
<td>Deputy Commissioner for Resettlement</td>
<td>Resettlement Dept.</td>
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<tr>
<td>Deputy Secretary for Home Affairs</td>
<td>Secretariat for Home Aff.</td>
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<td>Deputy Director of Urban Services</td>
<td>Urban Services Dept.</td>
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<th>Staff Grade C</th>
<th>Department</th>
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<td>Assistant Colonial Secretary (Councils)</td>
<td>Colonial Secretariat</td>
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<td>Assistant Colonial Secretary (Establishment Conditions)</td>
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<td>Assistant Colonial Secretary (Establishment Pay)</td>
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<td>Assistant Colonial Secretary (Lands)</td>
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<td>Assistant Colonial Secretary (Social Services)</td>
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<td>Assistant Economic Secretary</td>
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<td>Assistant Financial Secretary (A)</td>
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<td>Assistant Financial Secretary (B)</td>
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<td>Assistant Financial Secretary (C)</td>
<td>Colonial Secretariat</td>
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<tr>
<td>Asst. Commissioner (Commercial), Hong Kong Government Office (London)</td>
<td>Colonial Secretariat</td>
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<tr>
<td>Asst. Director of Medical &amp; Health Services (Adm.)</td>
<td>Medical &amp; Health Dept.</td>
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<td>District Officer, Tai Po</td>
<td>New Territories Adm.</td>
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<td>District Officer, Tuen Wan</td>
<td>New Territories Adm.</td>
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<tr>
<td>District Officer, Yuen Long</td>
<td>New Territories Adm.</td>
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<tr>
<td>Asst. Commissioner for Resettlement</td>
<td>Resettlement Dept.</td>
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<tr>
<td>Asst. Commissioner for Resettlement</td>
<td>Resettlement Dept.</td>
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<tr>
<td>Civil Secretary, Royal Hong Kong Police Force</td>
<td>R.H.K.P.F.</td>
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<tr>
<td>Asst. Secretary for Home Affairs (HQ)</td>
<td>Secretariat for Home Aff.</td>
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<td>Asst. Secretary for Home Affairs (HK)</td>
<td>Secretariat for Home Aff.</td>
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<td>Asst. Secretary for Home Affairs (K)</td>
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<td>Asst. Director of Urban Services (Abattoirs, Hawkers, and Markets)</td>
<td>Urban Services Dept.</td>
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<td>Asst. Director of Urban Services (Amenities)</td>
<td>Urban Services Dept.</td>
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### Senior Administrative Officer / Administrative Officer

**Colonial Secretariat**
- Assistant Secretary (General) A
- Assistant Secretary (General) M
- Assistant Secretary (General) C
- Assistant Secretary (Social Services) A
- Assistant Secretary (Social Services) B
- Assistant Secretary (Social Services) C
- Assistant Secretary (Social Services) D
- Assistant Secretary (Finance) 1
- Assistant Secretary (Finance) 2
- Assistant Secretary (Finance) 3
- Assistant Secretary (Finance) 4
- Assistant Secretary (Economic) 1
- Assistant Secretary (Economic) 2
- Assistant Secretary (Economic) 3
- Assistant Secretary (Economic) 4
- Assistant Defence Secretary (1)
- Assistant Defence Secretary (2)
- Assistant Defence Secretary (3)
- Assistant Secretary (Councils)
- Assistant Secretary (Lands) 1
- Assistant Secretary (Lands) 2
- Assistant Secretary (Allowance & Housing)
- Assistant Secretary (Establishment Discipline)
- Chinese Liaison Officer, HKGO (London)

**Secretariat for Home Affairs**
- Asst. Secretary SHA (City Districts)
- Asst. Secretary SHA (General & Traditional)
- Asst. Secretary SHA (Lands)
- Asst. Secretary SHA (Narcotics)
- C.D.O. (Central)
- C.D.O. (Western)
- C.D.O. (Eastern)
- C.D.O. (Wan Chai)
- C.D.O. (Mong Kok)
- C.D.O. (Yau Ma Tei)
- C.D.O. (Sham Shui Po)
- C.D.O. (Kowloon City)
- C.D.O. (Wong Tai Sin)
- C.D.O. (Kwun Tong)

**Social Welfare**
- Senior Administrative Assistant
- A.O. (Planning & Research)

**Training Posts**
- 10 posts

**Agriculture & Fisheries**

**Administrative Officer**
- Administrative Assistant

**New Territories Administration**
- Administrative Assistant (1)
- Administrative Assistant (2)
- D.O. Islands
- D.O., Sai Kung
- A.D.O., Sai Kung
- A.D.O., Tai Po (1)
- A.D.O., Tai Po (2)
- A.D.O., Yuen Long (1)
- A.D.O., Yuen Long (2)
- A.D.O., Castle Peak
- A.D.O., Tsuen Wan (1)
- A.D.O., Tsuen Wan (2)

**Resettlement**
- A.O. (Clearance)
- A.O. (Estates) 1
- A.O. (Estates) 2
- A.O. (Estates) 3
- A.O. (Estates) 4
- A.O. (Sq. Control)
- A.O. (Areas)

### Source:
The Administrative Class in Hong Kong, mimeo (January, 1973).
One long-serving professional head was extremely critical of what he termed "these mandarins."

The fact that Hong Kong has had the most rapid expansion of virtually any government since World War II has meant extremely rapid promotion for a number of administrative officers. Though professional officers staff twenty of the thirty most important departments in government, they are not eligible for promotion to key Secretariat positions, and thus their experience and expertise is wasted. My predecessor served for about sixteen years in my post. After about ten years a man has no more to give to any department, but he would be valuable in administration. Even so, he is passed over in consideration to a less experienced administrative officer.

Another long-serving technical head about to retire felt that frequent rotation of administrative "generalists" had made his task all the more difficult. He put it this way:

The system of rotation for administrative officers who generally staff policy and finance positions in the Secretariat means that there is always a constant turnover of amateurs who do not understand my special needs. It is always necessary to begin from scratch with a new man in the Secretariat. This new man will have inherited the unsolved or uncompleted requests of his predecessor, who in turn may have sat on a request for a substantial period prior to his transfer. (italics mine)

And even a very top-ranking Finance Branch member recognized that "rotation of the administrative officers poses problems for departments," but simultaneously said that if the professional could not explain his request in simple terms, he did not deserve financial approval from the lay administrative officer.

Another professional officer noted that administrative officers seemed upset if professionals leapfrogged ahead of them into higher posts, pointing specifically to the installation of the head of public works into the Secretary for Environment post created by the 1972 reorganization of government. The most vitriolic remark came from an officer in a large professional department:

These administrative officers believe that they, as the Queen's representatives, know what's best for us all. In actual fact, they are all just fighting for power. They scratch each others' backs, which is why
they can get along with the Secretariat better when they head a department than can the professional head of department. Who knows? One day they may switch jobs with each other.

The Hong Kong government is not a monolithic entity: there are divisions among branches within the Secretariat, divisions among the various branches of civil service, and, finally, even divisions among administrative officers who are rotated out of the Secretariat into a departmental slot. One very prominent officer reflected on both his and a former colleague's reactions:

Even if you have worked in Finance Branch, once you leave the center of things to go work in a department, it is then presumed you cannot be trusted. ______ remarked that as an Assistant Secretary in ______ branch his views were respected. Once he became promoted to ______, he lost all his trustworthiness and power—only those who pay the piper call the tune.

An Assistant Financial Secretary had a slightly different point of view:

There are only about one hundred or so administrative officers in the entire government service. You would think that as they rotate into departmental posts out of Finance Branch, that the workings of Finance Branch would become more clearly understood in all those departments staffed by administrative officers. But, for some reason, they immediately take up the departmental perspective and forget the finance perspective.

Qualifications and Recruitment. Until 1959, both British and local recruits to the administrative grade were required to possess a good honor's degree and, soon after their appointment, to attend the overseas service course at either Oxford or Cambridge University. This course was dropped in 1959 as a general requirement, and a good honor's degree then became the only normal admission requirement.

The scope of recruitment was further widened in 1965 to permit the entry of candidates with successful experience in colonial service, regardless of a good honor's degree. Formal qualifications gradually loosened; in 1968, on the advice of the Public Services
Commission, recruitment began within the public services. Officers with two or more years’ experience in the public service were considered for entry into the administrative grade, even though they did not possess a university degree. Now they require only a good general education and a strong recommendation from their department heads.

This decline in entry standards has not gone unnoticed. According to one staff grade A officer:

The quality of the administrative service has declined. One only has to compare an Executive Council paper of ten years ago to one written now. We don’t get top-flight people or even those with second-class honor’s degrees. As a result, department heads have had to inflate the grade of a post to get a man skilled enough to do the job he must have done. Of course, Finance Branch has opposed much of this, but there has been substantial inflation in the establishment of government.

While quality has declined, quantity has risen. It has long been government policy to maintain a certain proportion of overseas officers in the administrative grade, regardless of the availability of qualified and suitable local candidates. From an authorized size of 17,500 in 1948, the public service grew to 36,000 in 1957, to 75,000 in 1967, and beyond 110,000 by 1973. Correspondingly, the administrative grade numbered 19 in 1946 immediately after the war, increased to 36 in 1948, 58 in 1957, 96 by 1967, and reached 127 by 1973. Between 1949 and 1959, the number of permanent posts in the administrative grade doubled; it increased a further 68 percent between 1959 and 1971.

In recent years, especially local officers have been recruited for the administrative class. As of 1 August 1971, for example, the number of local officers of various ranks serving in the administrative grade was as shown in Table 9. The majority of local administrative officers serve either as City District Officers or in the New Territories Administration.

Allegations have been repeatedly made that the highest posts in Her Majesty’s colonial service are, and will be, reserved exclusively for European staff, that Chinese can never serve in the post of Colonial or Financial Secretary in view of Hong Kong’s delicate
political geography. It is alleged that Peking would never allow a "Chinese" government in Hong Kong and that, therefore, the top posts must be held by expatriate staff. This point of view is shared both by expatriate and Chinese officials with whom I talked. It accounts for the difficulty in recruiting qualified local administrative officers. What Chinese with very promising opportunities in Hong Kong's remunerative private sector would join the public service, believing, mistakenly or not, that the topmost posts are reserved for Europeans?

Some expatriates even suggested that one might view the few Chinese in the staff grade posts as political appointees, holding high position not by virtue of their administrative prowess, but because of government's expressed political policy to increase the number of Chinese in high public positions. Unlike in other former dependent territories, however, the process of localization in Hong Kong has never been a crash program, with the wholesale insertion of local officers by extraordinary promotion into the top echelon. Local officers are expected to work their way up as might any young expatriate officer, and it can take from ten to twenty years to achieve staff grade status. Thus local officers were not yet represented in substantial proportions in the staff grade by 1971.

In addition, Chinese civil servants are not given high marks in the handling of responsible decision-making tasks. One staff grade European described his experience after a recent transfer:

Now I've got two thousand people to supervise instead of four hundred and am working three times as hard as before. Most of my
senior Chinese staff reject responsibility and simply pass the difficult decisions up to me. They aren’t averse to saying no, but are reluctant to say yes.

Probably these European complaints rise from the problem that the best Chinese are not attracted into the public service—private sector salaries are much higher than those of government service. To cope with this problem and the concurrent problem of declining standards of entry and thus of quality of junior administrative personnel, a new Oxford scheme has been established in which a select number of local personnel are trained for the civil service, with a year’s study at Oxford similar to the pre-1960 arrangement.

Executive Officers

As of 1 October 1972, 586 executive officers staffed a variety of government posts in the Secretariat and in virtually every government department. Apart from just one principal executive officer, the executive officer grade within the establishment is, by order of seniority (and in numbers), as follows: chief executive officer (11), senior executive officer (89), and executive officer (485).16

The basic duties undertaken by executive officers cover the following fields of work: personnel, office administration, finance, audit and accounts, liaison with departments to carry out campaign work (for example, the Festival of Hong Kong), committee work, training of staff, and planning, research, and statistics. Executive officers are directly responsible to chief or senior executive officers or to departmental officers.

The senior executive officer’s duties can be a secretary of a department, a personnel officer, or carry responsibility for financial control. In addition, he may manage general and minor staff, recruitment, and promotions. In general he performs a wide range of tasks at the middle-management level of government.

The chief executive officers work either in the Secretariat or in the very large departments. In the Secretariat they fulfill vital management and control responsibilities, for example, controlling the executive, clerical, and secretarial grade throughout government;
complementing and grading in the Finance Branch; or controlling the pay investigation unit. In large departments they act as secretaries and personnel officers. In some instances they have additional responsibilities for financial control.

While executive officers exert little influence over policy making, by managing daily routine they free higher-up officers to make the significant decisions. More importantly, they affect successful implementation of government policy, either through judicious application of their efforts or through foot-dragging recalcitrance.

How has localization fared in the executive officer class? The principal executive officer and all eleven chief executive officers at 1 October 1972 were Europeans. Of the eighty-nine senior executive officers, sixty-five were non-Chinese. By contrast, less than sixty of the 485 lower-grade executive officers were non-Chinese and many of them were Hong Kong residents of Indian or Pakistani origin. Once again the top grades are held by Europeans the lower grades by locals. Some of these Europeans have come to Hong Kong from prior service in a former dependent British territory in which independence quickly gave way to nationalization.

**Professional Officers**

A majority of public service departments are headed and staffed by officers with professional qualifications (technical skills). Both the number of departments in government and those headed by professional officers has grown in modern times and has, at one time or another, included: Agriculture and Fisheries, Audit, Civil Aviation, Education, Fire Services, Government Supplies, Immigration, Information Services, Inland Revenue, Kowloon-Canton Railway, Labor and Mines (since 1973), Legal and Legal Aid, Marine, Medical and Health, Post Office, Printing, Prisons, Public Works, Radio Hong Kong, Rating and Valuation, Registrar General, Registration of Persons, Registry of Trade Unions, Police, Royal Observatory, Treasury, and the Judiciary. This list does not include local auxiliary defense units.

Unlike administrative or executive officers who rotate through a variety of different posts inside and out of the Secretariat, profes-
sional officers usually join one department and work up through the ranks to supervisory posts. They are not "administrative generalists," but "technical specialists." And they are resentful of "arrogant" and "youthful" cadets who delay, frustrate, reject, or fail to understand needs and requirements as proposed in departmental submissions.

The implementation of governmental reorganization, beginning in 1973, holds the promise of Secretariat appointment for professional officers and a friendlier ear in the policy-making circles of government house. Whether or not grievances of professional heads of department abate as reorganization nears completion is, as yet, unknown.
Economic and Budgetary Policy

Historical precedent has shaped Hong Kong’s economic and budgetary policies. The incentives and constraints that dictate contemporary practice derive, in the case of budgetary policy, from the letter and spirit of the colonial regulations—the emphasis on self-support and balanced budgets. In the case of economic policy, the free-port status of early Hong Kong discouraged an interventionist government—wealth creation was to reside in the private sector. Nonintervention and fiscal responsibility are still the cornerstones of modern administration which, in the presence of an otherwise increasingly restrictionist world beset with deficit budgets and growing public debts, must surely seem anachronistic.

The lead essay in the 1969 *Hong Kong Annual Report* presents the Government’s own summary of its economic policy:

The Government’s economic policy towards manufacturing industry has not changed during the decade. What might be described as its negative aspects, that is to say, its reluctance to accord special favour to manufacturing industries, is bound up with a liberal commercial policy, which involves a minimum of official intervention or vexatious restrictions, and neither protection nor subsidisation of manufactures. The Government believes that dynamic and, above all, coherent industrial development in Hong Kong’s circumstances is dependent on maintaining these elements of commercial policy. The positive elements benefiting industry are low direct taxation . . . ; a prudent, by modern standards unorthodox, almost Gladstonian, fiscal policy; a strong financial structure and a liberal foreign exchange policy.1

Through the medium of the Financial Secretary’s annual budget addresses to the Legislative Council, I describe the government’s
economic and budgetary policies as if they were conceptually distinct, although the two are, of course, highly interdependent.

**Economic Policy**

In Hong Kong, economic affairs are conducted in an environment of virtually unfettered free enterprise. Government policy has long dictated a virtually hands-off approach toward the private sector, an approach that seems well suited to Hong Kong's exposed and dependent economic and political situation. The philosophy that underlies government in Hong Kong can be summed up in a few short phrases: law and order, minimum interference in private affairs, and the creation of an environment conducive to profitable investment. Regulatory economic controls are held to a minimum, no restrictions are placed on the movement of capital, little protection and few subsidies are given to industry, and the few direct services provided by government are operated on a commercial basis. It is a cardinal aim of government not to discourage enterprise in the private sector.

**Capital Movements**

Hong Kong is a completely free market in money. No barriers restrict exchange between the Hong Kong dollar and other currencies. Hong Kong is thus a genuine financial haven—financial assets are easily transferable or convertible with minimum regulation or interference. The ever-increasing funds that have been attracted to Hong Kong banks helped finance industrial development. These capital inflows were so substantial throughout the postwar period that Hong Kong is today a major financial center. Guaranteening the free flow of capital, the Financial Secretaries believe, insures its continual movement to Hong Kong for safekeeping and investment. Before the first reading of the 1955-56 appropriation bill, Arthur Clarke, the current Financial Secretary, posed the following question: "Can we as a Government do anything to maintain or to improve this economy of ours?" His reply:
We can do little to encourage capital to come here or to remain here, apart from two things; firstly, to place as few restrictions as possible on its movement; and secondly, to allow it to have as good a return as possible by keeping the rate of tax on profits low.\(^2\)

Sir John Cowperthwaite echoed the same belief in the 1963 budget debate. He sought to allay fears that the absence of restrictions on capital movements might lead to a harmful outflow of funds into overseas securities.

My honourable Friend F. S. Li has further suggested that something might be done to prevent the outflow of funds into investment in foreign securities. I myself do not think it would be wise to try to do anything about this. We enjoy a considerable net inflow of capital and I am sure that a condition of its coming, and staying, is that it is free to flow out again. It is also important for Hong Kong’s status as a financial centre that there should be a maximum freedom of capital movement both in and out. I am sure that we make a substantial net gain.\(^3\)

In response to Li’s repeated anxiety during the 1967 budget debate, Sir John simplified the point: “Simply put, money comes here and stays here because it can go if it wants to go. Try to hedge it around with prohibitions, and it would go and we could not stop it; and no more would come.”\(^4\)

**Subsidies**

Except for land grants in the mid-1970s to land-intensive industries and the segregation of industrial land to protect it from the competition of other land users, no protection or government assistance is traditionally given to manufacturing industries, utilities, service industries, or private citizens. No attempt is made to distort factor prices in favor of any particular type of development. Market forces are allowed to shape the economy, and industries that lobby for protection from the competitive forces in the marketplace are fiercely resisted.
On numerous occasions the unofficials in Legislative Council have suggested that the Financial Secretary consider rebates to industry. Replying to one member’s proposal for a rebate of water charges in the 1960 budget debate, Clarke announced that any rebate would constitute a subsidy to industry and was, therefore, unacceptable.

I am sorry that I must reject Mr. Lee’s suggestion for a rebate to industry in respect of their water charges. It was brought out in the Report of the Mould Commission that in Kowloon the domestic consumer of electricity was subsidizing the industrial consumer. We do not, Sir, propose to allow the same thing to happen with water; if we were to allow a rebate to the industrial user of water, we would be supplying below cost, and I see no reason why the taxpayer, or the domestic consumer of water, should subsidize industry, which can well afford to pay.\textsuperscript{5}

Sir John Cowperthwaite often objected to the historically evolved system of subsidies that the government provided for permanent middle-class residents.\textsuperscript{6} In 1962, for example, he criticized education subsidies:

This is another sense in which some of our public services may be criticized as too cheap. In a full welfare state, where welfare services go hand in hand with steeply progressive personal taxation, the administrative convenience of providing free or nominally priced services to rich and poor alike is not seriously prejudiced by considerations of equity. We do not have a steeply progressive taxation system and I often wonder whether the substantial subsidies we give, for example, in education, to all, irrespective of ability to pay, are really justified. . . . It would seem to me that there is a strong case for higher standard fees with subsidized places only for those who need them.\textsuperscript{7}

The subject of car parks and taxes on the articulate minority that comprise the motoring public first received Sir John’s attention in 1963, but his view that the motoring public should pay the full cost of their parking spaces sustains his predecessor’s policy. In his outgoing year, Clarke warned the private motorist:
I think I should take this opportunity to warn private car owners that the days of cheap motoring in Hong Kong are going. We have been very lucky so far. Purchase Tax on cars in Britain is still 50%; in Australia it was reduced from 40% to 30% only last week. Here we propose only 10%. But we propose also a revision of car license fees with a view particularly to increasing the charge for large cars; we propose a wide extension of metered parking, perhaps at higher rates. Car park charges will have to be looked at: possibly honourable Members may not have realized that the rent of a space in a public car park is less than the rent of a cubicle, of not much smaller area than a tenement. Is there, Sir, perhaps something wrong with our sense of values? 8

Barely two years in office, Cowperthwaite carried the argument with equal vigor.

I have been accused before of wanting to tax the motorist out of existence but that is not so. My point always has been that his cost to the community is inevitably going to rise very sharply as the car population increases and that he must pay this cost in full. Parking is now becoming a substantial element in that cost. Each owner needs for his car one space, or two spaces if he is a commuter, the size, and the cost, of a small flat. But, unlike low-cost housing for low-income groups, parking and garaging for private cars is not yet recognized as a social welfare service, even in America and Europe. 9

Clarke, Cowperthwaite, and then Philip Haddon-Cave have each resolutely opposed any system of subsidy that exempted any industry from paying the full costs of the resources it consumed. Each has also opposed subsidies for the well-to-do, and the Financial Secretary, despite a general conception to the opposite, regularly defends the economic rights of the less fortunate members of the community. Public expenditure on housing, for example, is one issue that affects the entire population. Concluding the 1963 budget debate, Cowperthwaite rejected a request for middle-income housing assistance.

My honourable Friend Mr. Gordon has spoken of the need for Government to do something about housing for the lower-middle and
middle income groups for whom, he says, it is clear that not enough is being done. At the risk of appearing unsympathetic (which I am not)—I should like to begin with a philosophical comment. I do not think that when one is speaking of hardships or benefits one can reasonably speak in terms of classes or social groups but only in terms of individuals; and in the context of housing one must compare the position of an individual in the lowest income group who does not yet enjoy subsidized housing with that of an individual in the middle-income group in the same circumstances. I make this distinction largely in order to make the point that whatever we do for the middle-income groups must not be such as to prejudice, by diversion of resources or energy, the continuation of our maximum housing effort at the lower end of the scale.\(^{10}\)

Two years later, Cowperthwaite reflected on this same point.

One of my difficulties about differential public housing standards arises from the fact that all public housing is subsidized by concessionary grants of land, by low interest rates and by long capital redemption periods; and in consequence the more expensive the accommodation that is built or the lower the densities of occupation, the higher, other things being equal, the subsidy to each individual; that is, *the better off a family is the higher the subsidy it tends to receive; which is surely absurd.*\(^{11}\) (italics mine)

Although journalists and academics have charged Cowperthwaite with emphasizing growth rather than distribution of income, his budget speeches show greater concern for the mass of Hong Kong residents than for the immediate financial interests of the middle class. He first raised the issue of the choice between quantity and quality in provision of public service to the whole community in 1962. In 1964 he resurrected this choice in light of the apparent paradox of annual budget surpluses, low rates of taxation, and inadequate public services. He noted that money was not a problem in the short term.

First of all, the situation must be looked at both in the short term and in the long term. Short term, the fact is that the public services cannot be expanded, with efficiency and economy, at faster than a certain rate. Spending itself can be raised easily enough by inflating
Economic and Budgetary Policy

costs, either directly by raising the wages and salaries of the public service or indirectly by imposing excessive pressures on scarce resources. But money cannot be converted into houses or trained teachers or hospitals at the touch of a magic wand. There are limitations to our physical and intellectual resources. . . .

I have said that money has not been the limiting factor in recent years; this is in the short term. For longer terms it is not quite as true. We have to look ahead as far as we can, and assess as well as we can, both our resources and our needs and attempt to reconcile them; and this future reconciliation must condition our view of the proper level and content of our immediate policies. When introducing my first Budget two years ago I attempted to make this point. I pointed out that we were at present able to meet the high cost of certain services based on imported standards only because we were providing them for a small part of the population, a situation which had arisen by historical accident; and that I feared that if we went on expanding at current standards and levels of cost we might find ourselves one day with all our resources gone and still inadequate services. What we have to do is shape these services now in such a way that we can as soon as possible provide them in full at costs, both capital and recurrent, we can afford.12

Evidently two analyses of the dilemma between quantity and quality in the provision of public services did not satisfy the Council. In 1966 another version came up:

I do not say that this means that there is no scope for increased public services. There clearly is. My fear is rather, if I may repeat what I have said year after year, that we are developing public services which are too expensive per unit (both in recurrent terms and in capital terms), and of too high a standard, for our means, if we are to extend them as they should be extended. Many of our services cost more than do similar services in Europe, because, although we have a substantial quantitative deficiency of public services, the decision-takers and policy-makers, both inside and outside Government as I have said before today, being themselves from the better-off (to use a popular euphemism) sectors of our society, not only demand the highest standards of provision of public services to meet what they consider their own essential needs (for example, in public car parks); but also find it difficult to think of provision for the rest of the
population in terms of standards relative to our real total resources. We tend to the opposite situation to that made familiar by Professor Galbraith; we tend to public affluence and private squalor. . . .

The staffing costs of our public services are also disproportionately high in relation to our means. I am not expressing any judgment as to whether civil servants deserve their salaries, only as to whether we can afford to pay these salaries and adequately expand our services.

There is one particular aspect of the situation which causes me considerable apprehension, the tendency to demand that subsidized services be extended, at these high standards, to all citizens irrespective of need. It seems to me that we have three choices: first, public services of high standard and cost but of limited scope, leaving unfilled a substantial part of the present gap, not necessarily benefiting those in real need and benefiting many who are not in need at all (this has been our historical approach); second, public services to meet the requirements of all, with the beneficiaries making a contribution by way of fee according to their means, and with adequate provision for complete remission in suitable cases; or third, universal public services provided for rich and poor alike on terms the poorest can afford; that is, the welfare state where all benefit and the whole cost is met by the taxpayer in general. I think it is well-known that I am an advocate of the second approach, although my views on it are somewhat influenced by this other question of the standard of provision.13

That trained personnel might insist on the provision of public services commensurate with the level of their professional qualifications is hardly surprising. Yet, Cowperthwaite insists that these high standards are inappropriate in Hong Kong's circumstances, in which public services extend to the entire population. The choice between quality and quantity is thus a choice between the limited provision of services on a middle-class standard, or the society-wide extensive supply of public services, at a vastly reduced cost per unit of supply. It is reasonable that middle-class unofficials and bureaucrats, both as producers and consumers, would insist on high standards of public service; that Cowperthwaite advocates mass provision, albeit at reduced standards, makes him a spokesman for the inarticulate mass of citizenry.

Another illustration of Cowperthwaite's concern for equity appears in the 1967 budget debate. Responding to the suggestion that
mortgage interest be allowable as a deduction for purposes of the salaries tax, he noted that this would benefit only those who have substantial income. "The man whose income is below tax level or who has bought a house for cash or who occupies a rented home would not benefit.""14

In his outgoing year, Cowperthwaite announced, with reluctance, the government's new policy of free universal primary education. His objection: Those who can afford to pay primary school fees should not receive a subsidy from the taxpayer. "I hope that we shall be able to do something to limit free primary education, and possibly, for that matter, heavily subsidized primary education, to the schools which do not cater for the affluent."15 Haddon-Cave retained philosophical continuity on educational subsidies two years later when he remarked:

I, too, think we moved contrary to our basic financial policies when we took this step. With our narrow and low tax system, I find elusive the arguments that those who can afford to contribute directly towards the inevitably very high cost of the education of their children should not do so.16

Although Clarke, Cowperthwaite, and Haddon-Cave broadly influenced policy and spending, they were not monolithic dictators, and their objections to spending were occasionally overridden, especially since the government generates annual budget surpluses instead of deficits. Cowperthwaite noted in 1964 that "a Financial Secretary's life is paradoxically easier when money is scarce than when it is plentiful; he is riding with a tighter rein."17 In spite of his objections, the Financial Secretary must support the implementation of official policy, yet, in his position as financial spokesman in the annual budget debate, he can state his objections.

*Government Economic Services*18

What part does government play in the operation of the Hong Kong economy? Its philosophy is consistently noninterventionist, and its reliance on the private sector and the market mechanism for the production of national wealth extends even to public utilities and
public transport: electricity, gas, the telephone service, buses, fer-
ries, and the tramways are all entrusted to private hands. Govern-
ment, however, intervenes in such areas as the provision of water,
land ownership and public housing, operation of the airport and the
railway, and regulates, in part, banking, rents for domestic prem-
ises, pollution emissions, labor conditions, the rice trade, fish mar-
keting, and so forth. Each instance of official intervention or regula-
tion can be explained in the context of Hong Kong’s peculiar politi-
cal and economic geography. 19

Government’s management style is governed by the philosophy
of self-support. It seeks to operate any economic service on a
commercial basis. Once it has determined that it must supply a
service to achieve social or economic objectives, it tries to conduct
its affairs with minimum cost to the general taxpayer. In 1955, for
instance, Clarke commented on the disparity between fees charged
and the cost of providing services:

It is proposed in the course of the next few months to look into the
various fees and charges that are made by Government. This process
has already started and this Council will very soon be asked to
consider draft legislation for increasing various fees charged in the
Registrar General’s department, principally in connexion with the
Companies Ordinance. It is also proposed, for example, to increase
the fees for marriage licenses. Many charges have remained un-
changed since before the war and now bear no relation to the cost of
the services which they are meant at least partially to cover. 20

The waterworks, managed entirely by government, have always
posed the problem of self-support and the self-liquidation of capital
investment at commercial rates. The historical difficulties with pro-
vision of water—there are no rivers and only a few large streams in
the colony—have led to an annual concern with excess demand,
rationing, and correct pricing. The colony’s water consumption is
supplied by collecting and storing rainwater through systems of
catchwaters and reservoirs, a desalinization scheme, and the pur-
chase of water from China. The uneven incidence of rainfall, com-
bined with a lack of space for storage, has often resulted in shortage,
leading on occasion to water rationing. In 1963, for example, the
mains were opened for a four-hour period once every four days.
In the 1960 budget, Arthur Clarke forecast deficits in the future operations of the waterworks, noting first that consumers were using too much water at the present price, and, secondly, the system of fees would not repay the capital invested in new reservoir schemes.

I am afraid that the time has now come to increase water charges, and it is proposed to raise the price from 80 cents per thousand gallons to one dollar per thousand gallons. . . . this, we hope, Sir, will have the effect of inducing those concerned to be more careful in their use of water—to use less water.21

The 1963 rationing ordeal brought on discussion of an adequate supply of water in the 1964 budget debate. Cowperthwaite’s analysis is an excellent exposition of price theory, opportunity cost, and the law of demand, subjects which lay persons often overlook when they suggest that government should do more for the people.

This leads me to another water topic—the appropriate daily period of supply we should be aiming at. I find myself considered inhumane or unprogressive or sometimes merely odd, by some of my colleagues as well as members of the public, when I suggest that it is not axiomatic that a twenty-four-hour supply in all circumstances must be our immediate aim. I cannot myself see any grounds for the belief that a twenty-four-hour domestic water supply is an inalienable right of civilized man. It may be, if he can afford it and is prepared to pay the price. But here we come up against the problem of determining the public’s preferences and priorities in the spending of its money and also of determining the true costs to the community. I would not take issue with a doctrine that a twenty-four-hour supply should be available if charged for at commercial costs, because they measure the true cost to the community in terms of choice between competing uses of scarce resources. And at commercial prices a twenty-four-hour supply may in fact be quite easy to provide because on a commercial basis rates would be very high, probably several times those calculated on the present noncommercial basis, and consumption would therefore be substantially lower. But clearly charges at this level would be a hardship for those who are contented with less at lower prices; and I think there must be, in the case of a public utility like water, an overriding principle that the rate should be low enough for everyone to pay for enough to meet his reasonable needs. What cannot in my
view be justified is investment of very large amounts of public capital (for which there are so many competing demands) for the provision of a supply for maximum consumption on the basis of normal Government pricing at noncommercial interest rates and redemption periods. In our circumstances this would probably be a waste of resources which could be put to much better social and economic use. . . . I myself do not believe therefore that a twenty-four-hour domestic supply in all circumstances, or even in average circumstances, is a reasonable aim, in our geographic situation and in our present economic circumstances, although it may be at some time in the future.22 (italics mine)

Thus, in 1965, Cowperthwaite raised water charges to bring revenues in line with both capital and recurrent costs, not in order to make a profit but to break even after charging interest and depreciation.23 The new rates became two dollars per thousand gallons and remained in effect until 1971, when he raised the price per thousand gallons to three dollars for domestic consumers, to four dollars for trade and industry and for nonocean-going ships, and to seven dollars for ocean-going ships. This raise sustained the practice of pricing water to recover costs, assuming a rate of interest reasonable in relation to current rates at the date of investment (about 7 percent in 1971).24

The new water rates were the high point of the 1971 budget debate. Cowperthwaite did not shy from battle.

I doubt if it were ever proper to raise taxes for the provision of water free, or on a subsidized basis, to all users. I see no reason, for example, why someone who is content with an economical cold shower should subsidize someone who is able to luxuriate in a deep hot bath; or why someone who waters a few plants in pots on his windowsill should subsidize someone who waters his extensive lawns; or why the careful domestic user should subsidize the profitable operations of a large industry. It is for these equitable reasons, as well as the general principle of charging for a commodity what it costs, that suggestions that taxes . . . should replace water charges must be deemed inappropriate.25 (italics mine)

In the future, he noted, government capital investments in water, or for that matter in new nonresettlement public housing, would bear
an interest charge of 7 percent, up from the recent rate of 5 percent.

In his 1974 budget, Haddon-Cave resonated with Clarke and Cowperthwaite on recovering costs from government services. He noted in three successive paragraphs that:

... we must vigorously update, and keep up to date, our system of fees and charges for those goods and services which are not a fair charge to general tax revenue; and this means ensuring that the full cost of these goods and services is covered.

... we cannot afford to allow social and political considerations unduly to influence our management of public utility undertakings, namely, the waterworks, the Post Office, the airport, and the Kowloon-Canton Railway.

... our system of licenses must be updated, and kept up-to-date, not so much on an historical cost basis, but in terms of what the market will bear.26

And, on the persistent question of water rates, he boldly warned:

The consequence of all this is that the cost of water looks as if it is going to be appreciably higher than my predecessor anticipated when he determined the present charges. And as I said earlier, we simply cannot afford to subsidise our utilities from General Revenue.27

Government's commercial management style for the waterworks also applies to other economic services. The budgets are full of explanations for the application of commercial practices to the provision of car parks, the railway, airport, post office, and so forth.

Government has traditionally financed its entire public works program and other capital investments from recurrent revenue. It has, in the past, scrupulously avoided borrowing, either domestically or overseas, to finance long-term investments. (More recently, and on a different note, desalinization was financed from borrowing and a queasy 1974 fiscal situation may force the Financial Secretary to borrow for other projects if some development programs are to proceed on schedule.) In any case, public debt is still miniscule and Legislative Councillors, academics, and journalists have all repeatedly asked why budgetary reserves have been accumulated and why government has not borrowed (more) funds to finance "urgent" social priorities.28
Government Borrowing. Why is the Financial Secretary averse to the routine practice of loan finance so commonplace in most industrial states? The answer is a combination of circumstances and philosophy. During Arthur Clarke's tenure (1952–61), for example, any attempt to borrow would have met serious obstacles. As he outlined to one unofficial member in 1960:

I can assure him that the question of borrowing has been in our minds for a year or more. The problem in borrowing locally is, of course, the strong prejudice against fixed interest stocks, but I do not share his optimism about the prospects of borrowing in the West, and I doubt if we would be given access to the London market. I can tell him, here and now, that the answer to an application from us for a place in the queue of borrowers would undoubtedly be that our rates of taxation are far too low; that there is plenty of money in the Colony; and that there are far more deserving applicants.²⁹

Two years later, Cowperthwaite stressed the virtue of a debt-free society. Pondering a gap in the projected five-year forecast of revenues and expenditures between 1962 and 1967, he reconfirmed Clarke's prognosis and inserted a moral dimension into the controversy.

Now how do we plan to fill the gap? Here I am in something of a dilemma. I am told by the taxpayer that taxes, in particular income taxes, should not be increased until we have borrowed, preferably from abroad. Foreign lenders on the other hand, particularly non-commercial ones, feel that they should not be asked to lend to us, when there are so many other needy clients in the world, until we have increased our taxes . . . . Finally, I see little prospect of borrowing locally at interest rates and for redemption periods which make any sense in relation to what we can regard as a reasonable price for public services. This last factor, as well as the fact that previous generations have handed down to us a substantial public heritage by way of roads, port, etc. almost completely free of debt, seems to me to impose some limitation on the validity of the theory that by borrowing we should, or could, pass on the burden of development to the next generation.³⁰

Four years later, Cowperthwaite addressed the issue of borrowing funds for public housing. Noting that the Housing Authority
amortized its building costs over forty years, the only way it could raise money for a period that long is through government’s compulsory power to tax; it could not be raised by borrowing. He then elaborated on the general issue of loan finance:

I have myself some substantial reservations about borrowing. In the first place, except in the event of borrowing abroad, borrowing does not throw the cost of development on to future generations, as some believe; it tends rather merely to redistribute the burden; not that, I feel, that we today in Hong Kong have any very clear moral right in any case to try to pass capital costs on to the future if that were possible, the assets handed on to us being almost wholly free of debt. Much of the strength of our economy today derives from the prudently orthodox policies we have pursued in the postwar years.

Secondly, there are strong grounds for attempting, if one can, not to mortgage the future. It is certainly cheaper in aggregate terms not to do so and it secures one from the temptation of assuming too heavy a burden of debt. Many of the developing countries today have put such a weight of debt on their own shoulders as to jeopardise their economic future. I have calculated in our own case that, if we had financed our capital deficits in the last twelve years from borrowing rather than from recurrent surpluses, we would now be paying over $300 million a year in servicing our debt—almost the whole of the present current surplus. One other facet of this is that much of our increase in current revenue derives from our debt-free investment, in waterworks, in housing, etc.

Again, one of the dangers about governmental borrowing is that there is a temptation to borrow for investment in capital projects which can never generate adequate income to redeem the debt or which do so at too slow a rate; and the burden of debt and the problem of its refinancing grows rapidly.

The trouble is that, in this age of inflation, there is very little possibility of long-term fixed interest borrowing; what there is, is usually an illusion based on a government’s power to create the money it borrows by inflationary processes, a policy which we must rigidly eschew. It is fatal, in our circumstances at least, to borrow short and invest long; yet this is the temptation governments are prone to fall into. One of the reasons for this is that governments are always reluctant, under political pressures, so to price their services as to make possible the redemption of loans, over the life of the loans, from income generated by their investment, even if it is economically feasible to do so. We for our part may be able to borrow, at not
unreasonable rates of interest, for periods of say, ten years. No doubt there are some projects which we could finance on this basis; but could we use such funds to finance housing, for example, where we have been lending to the Housing Authority and Society for periods of forty years, without raising rents to unacceptable levels? Could we finance our water supply, where we amortise the capital cost of our reservoirs over fifty years, without raising the price of water to unreasonable levels? The unwelcome truth is as I said already that today just about the only cheap, and certainly the only long-term, money available to us is money raised by the state’s compulsory powers to tax.32 (italics mine)

Cowperthwaite also objected to loan finance on inflationary grounds. He recognized periodic suggestions that local banks would welcome the opportunity of lending substantial sums to government if they were permitted to classify these loan certificates as liquid assets for the purposes of the Banking Ordinance. His reply:

Government’s consent to its loans being treated as liquid assets would involve it in an obligation to discount or repurchase these loans on demand, should banks run short of liquidity for any reason—as they might under the very impetus of Government borrowing, and its effect on our balance of payments. To do this a government must be able to create money against the security of its own obligations, bluntly, to print it; and, as I have said many times, we cannot do that without getting into trouble very quickly.33

Again, in 1968, Cowperthwaite spelled out his consistent policy on borrowing:

I have no objection to public borrowing for specific capital projects which will generate enough income to pay off interest and capital during the term of the loan; and that public medium or long-term loans must not rank as liquid assets of the banking system. The problem is where to find money that has these qualifications and no one has yet provided me with an answer to that problem.34

Haddon-Cave reemphasized the virtue of Hong Kong’s debt-free condition as he maintained the policy of considering only self-liquidating loan finance:
Economic and Budgetary Policy

We are virtually a debt free Government. Without wishing to dwell on the blindingly obvious, we are also a highly credit worthy Government, but I am totally opposed, in our economic circumstances, to the use of loan finance for other than directly self-liquidating projects for we must be able to relate debt charges to cash flows generated. Otherwise, we would run the risk of debt charges becoming a burden on general revenue to the detriment of our fiscal policies and thereby put the growth rate of the economy at risk.35

"One trouble is that when Government gets into a business it tends to make it uneconomic for anyone else."36 These Cowperthwaitian comments are the very heart and soul of the government’s economic policy: hands off the private sector, to avoid the risk of discouraging enterprise, and provision of government economic services, when required, on a commercial basis.

For I still believe that, in the long run, the aggregate of the decisions of individual businessmen, exercising individual judgment in a free economy, even if often mistaken, is likely to do less harm than the centralized decisions of a Government; and certainly the harm is likely to be counteracted faster. . . .

. . . It has to be recognized, and it is recognized over a large part of our daily life, that the community’s scarce economic resources can be efficiently allocated only by the price mechanism.37 (italics mine)

Budgetary Policy

The principle of self-support and balanced budgets in the colonial regulations applies equally to a financially independent Hong Kong. The government follows a fiscal policy intended to avoid sustained or systematic deficits and, if possible, accumulate reserves that permit sustained government expenditure over a long recession without serious cutbacks, and, in the process, earn interest to meet recurrent expenses. Except for a small deficit in the immediate postwar budget, Table 10 shows that the budget has ended the year in surplus in twenty-five of the last twenty-seven years through 1974. Moreover, these surpluses are computed after charging against current revenue all capital expenditure other than a comparatively
Table 10
REVENUE AND EXPENDITURE OF THE HONG KONG GOVERNMENT, 1946-47 THROUGH 1973-74
(HK$ Million)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Surplus (+) Deficit (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-47</td>
<td>82.1</td>
<td>85.6</td>
<td>-3.5</td>
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<tr>
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<td>164.3</td>
<td>127.7</td>
<td>+36.6</td>
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<tr>
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<td>194.9</td>
<td>160.0</td>
<td>+35.0</td>
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<tr>
<td>1949-50</td>
<td>264.3</td>
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<tr>
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<td>291.7</td>
<td>251.7</td>
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<tr>
<td>1951-52</td>
<td>308.6</td>
<td>275.9</td>
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<tr>
<td>1952-53</td>
<td>384.6</td>
<td>311.7</td>
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<tr>
<td>1953-54</td>
<td>396.9</td>
<td>355.4</td>
<td>+41.5</td>
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<tr>
<td>1954-55</td>
<td>434.5</td>
<td>373.3</td>
<td>+61.1</td>
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<tr>
<td>1955-56</td>
<td>454.7</td>
<td>402.5</td>
<td>+52.3</td>
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<tr>
<td>1956-57</td>
<td>509.7</td>
<td>469.5</td>
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<td>1957-58</td>
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<td>1958-59</td>
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<td>710.0</td>
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<td>1963-64</td>
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<td>1965-66</td>
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<td>1969-70</td>
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<td>1970-71</td>
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<td>1971-72</td>
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<tr>
<td>1972-73</td>
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<td>4,300.0</td>
<td>+636.0</td>
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<tr>
<td>1973-74</td>
<td>5,240.8</td>
<td>5,169.2</td>
<td>+71.6</td>
</tr>
</tbody>
</table>

### Table 11
**Actual Surplus/Deficit Compared with Estimated Surplus/Deficit**

(HK$ Million)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Actual Surplus (+)</th>
<th>Deficit (−)</th>
<th>Estimated Surplus (+)</th>
<th>Deficit (−)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-47</td>
<td>−3.5</td>
<td>−116.5</td>
<td></td>
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</tr>
<tr>
<td>1947-48</td>
<td>+36.6</td>
<td>0.0</td>
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</tr>
<tr>
<td>1948-49</td>
<td>+35.0</td>
<td>+1.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1949-50</td>
<td>+82.1</td>
<td>+0.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950-51</td>
<td>+40.0</td>
<td>+3.3</td>
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<td></td>
</tr>
<tr>
<td>1951-52</td>
<td>+32.7</td>
<td>+13.1</td>
<td></td>
<td></td>
</tr>
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<td>1952-53</td>
<td>+72.8</td>
<td>+2.1</td>
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</tr>
<tr>
<td>1953-54</td>
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<td>+20.5</td>
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<td>1954-55</td>
<td>+61.1</td>
<td>+1.2</td>
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</tr>
<tr>
<td>1955-56</td>
<td>+52.3</td>
<td>−35.4</td>
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<tr>
<td>1956-57</td>
<td>+40.1</td>
<td>−43.3</td>
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<tr>
<td>1957-58</td>
<td>+51.5</td>
<td>−53.7</td>
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<tr>
<td>1958-59</td>
<td>+39.4</td>
<td>−94.1</td>
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<tr>
<td>1959-60</td>
<td>−45.3</td>
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<tr>
<td>1960-61</td>
<td>+13.9</td>
<td>−226.1</td>
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<tr>
<td>1961-62</td>
<td>+77.2</td>
<td>−160.9</td>
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<tr>
<td>1962-63</td>
<td>+139.8</td>
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<tr>
<td>1963-64</td>
<td>+98.5</td>
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<tr>
<td>1964-65</td>
<td>+77.8</td>
<td>−114.3</td>
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<tr>
<td>1965-66</td>
<td>−137.4</td>
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<tr>
<td>1966-67</td>
<td>+11.7</td>
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<td>1967-68</td>
<td>+133.5</td>
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<td>1968-69</td>
<td>+208.1</td>
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<tr>
<td>1969-70</td>
<td>+448.5</td>
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<td>1970-71</td>
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<td>1972-73</td>
<td>+636.0</td>
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<tr>
<td>1973-74</td>
<td>+71.6</td>
<td>+200.0</td>
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<td></td>
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</table>

**Sources:** *Hong Kong Statistics 1947–1967, Table 9.11 and Hong Kong Annual Reports, 1947–1973.* See also *The 1974–75 Budget* and *The 1975–76 Budget.*
small amount financed by borrowing. Annual capital spendings have been as high as $735 million. Only once, in fiscal year 1965–66, did the deficit actually exceed the estimate (see Table 11), though an actual deficit in 1964–65 disappeared on paper due to a carryover of expenditure into the 1965–66 figure. In all other post-war years save 1973–74, estimated surpluses have been grossly understated and most estimated deficits disappeared in the face of buoyant revenue.

Budgetary policy in Hong Kong is unique among industrial states. Where else can one find low taxes, budget surpluses, substantial government reserves, a virtual absence of public debt, and a vast increase in public services? What is the explanation for this anomalous—dare I say virtuous—set of circumstances?

A first step is to understand the Financial Secretary’s attitude toward the budgetary process and the goals he sets for its annual exercise.

The object of the annual estimates, apart from the opportunity it gives this Council to carry out its primary duty of controlling public expenditure, is to take stock year by year of the budgetary effects of agreed policies and programmes of action in the public sphere, to look at our probable revenues and make proposals about how the year’s spending should be financed, for example, by running down reserves or by imposing additional taxation; and generally to ensure that we are not in danger of living beyond our means or overstretching the public demand on our resources and that our priorities continue to be right on a dynamic rather than a static basis. (italics mine)

We should neither credit nor saddle Cowperthwaite with the responsibility for this interpretation. Hong Kong Financial Secretaries have maintained an incredible continuity of fiscal policy. Witness, for example, Haddon-Cave’s 1972 statement on the relation between fiscal policy and economic circumstances:

Sir, I am sure honourable Members will have noticed that both Sir John Cowperthwaite and Mr. Clarke always dealt with the revenue estimates before the expenditure estimates and for obvious reasons: in our circumstances, there are severe limits to the range of indirect taxes which can be imposed (e.g., a customs tariff, such an important revenue raiser elsewhere, would be quite inappropriate in our circumstances); and there are severe limits also to the marginal rate of
direct taxation. By and large, therefore, we must fit public expendi­
ture to available public resources and not extend those resources to fit
expenditure.\(^3\)

The avoidance of systematic or continuous deficit financing has
been pursued with almost religious fervor in order to avoid
Keynesian-type inflationary finance. The only serious annual deficit
in postwar Hong Kong, which occurred during the 1965–66 fiscal
year, helped contribute to an increase in the rate of tax on earnings
and profits in 1966 from 12.5 to 15 percent. This was deemed neces­
sary and timely to support an accelerating rate of expenditure.
Cowperthwaite emphatically rejected deficit financing in his 1963
budget:

But I will not be proposing a course which has been under some
public discussion recently—deficit financing. It is wholly inappro­
priate to our economic situation. In its least extreme form it is based
on the theory that additional money generated by a Government
deficit (and given currency, as necessary, by use of the printing press)
will stimulate consumption and thereby production, in time to match
the excess money with goods before real inflationary harm is done.
Unfortunately we don’t, and can’t, produce more than a small frac­
tion of what we consume, and increased consumption would merely
mean increased imports without matching exports; and a severe
balance of payment crisis, which would destroy Hong Kong’s credit
and confidence in the Hong Kong dollar; and which we could not cure
without coming close to ruining ourselves. Keynes was not writing
with our situation in mind. In this hard world we have to earn before
we spend.\(^4\) (italics mine)

**Government Reserves**

The Hong Kong government is surely unique among industrial
states in that it possesses very large reserves, either deposited with
the local commercial banking system or held overseas chiefly in
sterling, which have historically ranged from one-half to one year’s
recurrent and capital expenditure. Periodic, often heated con­
troversy has arisen over these reserves, especially since two recent
sterling devaluations have eroded their value. To compound the
confusion, many critics mistakenly believe that these reserves are remitted to Britain as part of the colonial arrangement to exploit the Hong Kong taxpayer. Hong Kong newspapers and other articulate citizens repeatedly call for the return and use of these reserves to finance increased social services or to subsidize such basic commodities as rice. But postwar Financial Secretaries have consistently rejected these appeals on fiscal grounds.

In 1955, for example, Clarke announced that official government reserves approximated one year's revenue. In two years later he voiced his view on this matter: "On the whole therefore we have maintained our object of having in reserve a sum equal to one year's revenue." In response to criticism that too much of Hong Kong's official reserves were held outside the colony, Clarke replied that "Other things being equal, we keep our money where it can earn good rates of interest, and especially where a proportion is readily available at short notice if we should need it." Moreover, in 1960, he stated the advantage to Hong Kong of these reserves:

The fact of the matter is that it is because of these reserves that we are able to commit ourselves to our large public works programme in the knowledge that if the cost cannot be met out of revenue, as is very likely, then it can be met from the reserves without our having to borrow at a time which might be inopportune.

Haddon-Cave has also valued the existence of these reserves: "The fact is that our available fiscal reserves must be kept in hand in case the rate of growth of recurrent revenue is disappointing (an ever-present possibility in these uncertain times)."

Each of the postwar Financial Secretaries has attached paramount importance to these reserves. Clarke sought to hold one-year's worth of expenditure in reserve; Cowperthwaite observed the reserves decline to only a six-month outlay of annual expenditure with some concern; and, Haddon-Cave has shown alarm at the annual rate of increase of expenditure in relation to the revenue trend and available fiscal reserves.

The accumulation, remittance, and proposed uses of the reserves have sparked lively debate, but its existence in and of itself is
Table 12

**Cumulative Government Surplus**

(HK$ Million)

<table>
<thead>
<tr>
<th>Fiscal Year (March 31st)</th>
<th>Cumulative Official Surplus</th>
<th>Revenue Equalization Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947-48</td>
<td>37.0</td>
<td>----</td>
</tr>
<tr>
<td>1948-49</td>
<td>72.1</td>
<td>----</td>
</tr>
<tr>
<td>1949-50</td>
<td>154.1</td>
<td>----</td>
</tr>
<tr>
<td>1950-51</td>
<td>192.9</td>
<td>----</td>
</tr>
<tr>
<td>1951-52</td>
<td>222.0</td>
<td>----</td>
</tr>
<tr>
<td>1952-53</td>
<td>196.9</td>
<td>100.0&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>1953-54</td>
<td>242.4</td>
<td>137.4</td>
</tr>
<tr>
<td>1954-55</td>
<td>293.8</td>
<td>137.5</td>
</tr>
<tr>
<td>1955-56</td>
<td>311.4</td>
<td>137.6</td>
</tr>
<tr>
<td>1956-57</td>
<td>358.2</td>
<td>137.7</td>
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<tr>
<td>1957-58</td>
<td>401.5</td>
<td>137.8</td>
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<tr>
<td>1958-59</td>
<td>461.0</td>
<td>137.9</td>
</tr>
<tr>
<td>1959-60</td>
<td>406.7</td>
<td>138.0</td>
</tr>
<tr>
<td>1960-61</td>
<td>n.a.</td>
<td>138.0</td>
</tr>
<tr>
<td>1961-62</td>
<td>493.4</td>
<td>138.0</td>
</tr>
<tr>
<td>1962-63</td>
<td>659.1</td>
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<tr>
<td>1963-64</td>
<td>761.7</td>
<td>138.0</td>
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<tr>
<td>1964-65</td>
<td>822.9</td>
<td>138.0</td>
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<tr>
<td>1965-66</td>
<td>687.9</td>
<td>138.0</td>
</tr>
<tr>
<td>1966-67</td>
<td>710.2</td>
<td>138.0</td>
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<tr>
<td>1967-68</td>
<td>787.6</td>
<td>138.0</td>
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<tr>
<td>1968-69</td>
<td>949.3</td>
<td>138.0</td>
</tr>
<tr>
<td>1969-70</td>
<td>1,633.2</td>
<td>138.0</td>
</tr>
<tr>
<td>1970-71</td>
<td>2,284.5</td>
<td>138.0</td>
</tr>
<tr>
<td>1971-72</td>
<td>2,886.0</td>
<td>138.0</td>
</tr>
<tr>
<td>1972-73</td>
<td>3,179.0</td>
<td>----</td>
</tr>
<tr>
<td>1973-74</td>
<td>2,882.0</td>
<td>----</td>
</tr>
</tbody>
</table>

<sup>a</sup>Instituted in 1953 and eliminated in 1972, with funds transferred to the general revenue balance.

**SOURCES:** Calculated from *Hong Kong Annual Reports*, 1948–1971, *Hong Kong Monthly Digest of Statistics*, April 1972, Table 8.6, and *The 1974–75 Budget* and *The 1975–76 Budget*. 
anomalous to a world of chronic public debt and deficit financing. How has this reservoir of official funds arisen in a postwar society which saw extensive spending on public works and social services? Few governments ever attain the goal of a balanced budget, much less the accumulation of large surpluses.

In Hong Kong, several factors are at work: a recognition that long-term economic forecasting is unreliable locally, generally conservative estimating, a dramatic—perhaps unexpected—growth in revenues, and a never-ending concern over increasing recurrent commitments.

Long-term Forecasting. A balanced budget requires an accurate prediction of both estimates of revenue and expenditure. Revenue estimates are especially troublesome, as they vary directly with the performance of the economy. Hong Kong’s exposed and dependent situation frustrates, almost precludes, reasonably accurate forecasts of economic output and, hence, revenues. On a year-to-year basis, the task is exasperating; five-year forecasts of revenue are invariably wildly inaccurate. Expenditure forecasts, though in principle easier to program, often bear little resemblance to the subsequent outlays.

In his 1955 budget speech, Clarke explained why he abandoned the routine preparation of the five-year forecast of revenue and expenditure.

This year no such forecast has been attempted. Academic exercises of this kind are of much interest; they would be of value in settled, orderly, conditions, but they have proved singularly unhelpful and unfruitful in the conditions now prevailing here, where a single fire, such as that at Shek Kip Mei, can push up expenditure by $16 millions overnight, and can force us into a programme of further heavy expenditure.47

Cowperthwaite reimposed the system of five-year forecasts on department heads in 1962 in the light of increased programing, but he acknowledged that the forecasts “are highly speculative.” He admitted that a five-year forecast is a “rash undertaking if their speculative hazards are underestimated. . . . If a Five-Year Fore-
cast... is then proved by events to have been very far out (as I am certain it will) the Financial Secretary’s arguments lose their credit.”

By his final year, five-year forecasts of expenditure appeared in the printed draft estimates; revenue forecasts, however, did not appear. “I must also ask the public’s indulgence for not including the forecasts of revenue also, but that is an exercise in crystal-gazing which I should not like to put on public exhibition for a number of reasons.” Since revenue forecasting must be highly speculative in the circumstances of any economy that is, like Hong Kong, open at both ends, the natural tendency is caution. Indeed, even the expenditure projection should be viewed more as an exercise in policy stocktaking than as a concrete forecast, because of likely resources and shifting priorities.

Conservative Estimating. In Hong Kong’s unpredictable economy, heads of department might reasonably be expected to prepare and submit extremely conservative estimates of revenue. In light of the colonial regulations against which Arthur Clarke had to work, he evidently preferred caution to reckless abandon. By 1955, for example, he admitted:

In past years we have found that our estimating has been too conservative, and it is, I admit, quite likely that this fault, and I hope it may be considered a good one, may have been repeated in the draft Estimates.

But he apparently sought to refine the annual estimates of revenue and even washed his 1957 dirty linen in public, protesting that “despite the strictest injunctions to Heads of Departments, their estimating still continues to be poor in the extreme.”

In his eye, spending departments were equally at fault. Complaining that the 1957–58 estimates were unlikely to be realized, he zeroed in on the problem.

The budgeted deficit for the forthcoming year is thus $54.4 millions, and I have little doubt that honourable Members, in view of our experience this year, will be inclined to consider this as just another
estimate which is unlikely to be realized. There are some grounds for this view, as it is apparent that many Heads of Departments still persist in overestimating the amount of money they can manage to spend. A notable culprit in this respect during past years has been the Public Works Department, in respect of Public Works Non-Recurrent, but for the present year, as I have already mentioned, the Education Department is equally culpable in that their requirements for grants to aided schools, which were actually reduced by me during the budgeting process, now prove to be excessive to the extent of $7 millions.\textsuperscript{52}

Two years later, Clarke noted that expenditure had fallen short of the original estimate by about 5 percent; although a proportion of the shortfall was attributable to overestimating of cost, "There was a good deal of overestimating of the amount of work that could be accomplished during the year."\textsuperscript{53} In the following year, though, he withdrew his criticism of departmental estimating errors, recognizing that "One of the problems of estimating in this place is the fact that conditions keep changing so rapidly; nothing seems to be static."	extsuperscript{54} Upon leaving office he prophesied that the problem of accurate estimating would trouble future Financial Secretaries.

And, Sir, I expect, too, that my successor will make exactly the same mistake that I have always made. He will under-estimate revenue. He will underestimate his revenue, because, like me, like so many of us, he will never be able to comprehend how new and successful industries can be created overnight out of nothing, in the face of every possible handicap; how new trade can suddenly start up in some way that has never been thought of before; he, like me, will never be able to comprehend how on earth our enterprising, ingenious, hardworking people can ever manage to accomplish so much with so little.\textsuperscript{55}

Barely two years in office, Cowperthwaite fulfilled the prophecy. He advised that underestimating caused the revised estimates to differ from the initial approved figures for fiscal year 1962–63.

These revised estimates turn the originally estimated deficit of $164 million into a surplus on general account of $41 million. Of the swing
of $205 million, underspending is responsible for $67 million, underestimating of recurrent revenue for $59 million and underestimating of capital revenue for $69 million. 56

When, years later, the 1969–70 revised surplus exceeded by an additional $239 million the originally estimated surplus of $53 million, he accounted that “Of this difference $209 million is due to an under-estimate of revenue and $30 million is due to an over-estimate of expenditure. 57

Cowperthwaite’s outgoing speech, which terminated the 1971 budget debate, echoed Clarke’s departing sentiments:

My honourable Friend, Mr. Kan, has poked fun at me for the inaccuracy of past estimates of revenue and expenditure; while my honourable Friend, Dr. Chung, has been rather harsher with accusations of lack of candour and of arbitrariness. Two other Members have been sufficiently convinced that I have under-estimated revenue next year to set their own estimates against mine. I must make one formal protest about Mr. Kan’s figures; they include my predecessor’s last budget and I cannot be responsible for that one; and it had an unusually large margin of error as it happens. The quantification of my alleged pessimism should be reduced from $2.3 billion to just over $2 billion, of which, of course, well over half arose in the last three years when extreme optimism or an unusual gift of second sight would have been necessary to get the revenue estimates right.

Over nine years the error in estimating expenditure has been approximately 2½%, which is a significant improvement on previous years, when, it must be confessed, conditions for forecasting were on the whole more difficult. This figure would have been substantially less had it not been for the exceptional fall in expenditure in 1967–68, which also had an effect on 1968–69. The revenue estimates were less accurate, I admit, being 9% short of the actual income; but if one omits the last two exceptional years the margin of error was only 3%. And I defy anyone to say that he knew in advance that revenue would grow 45% over these last two years.

I quote these figures in reply but I do not think they are of any great significance. I have tried on a number of occasions to explain the true nature of the budgetary process. I will not go into this again at great length, although the reference by no less than three honourable Members to the “planned surplus” shows that I have not altogether
succeeded in my previous attempts to explain. Surpluses are not in any real sense "planned"; nor are deficits. I lay great store by the principle of the annuality of expenditure estimates as necessary for this Council’s exercise of its powers, and duty, of financial control. But it is wrong to look at each year separately. I hold that two principles are important; first that there should be a steady expansion of public services, not an irregular one related to revenue accruing in any particular year; the second that taxes should be constant over long periods (provided, that is, that they are neither burdensome nor inequitable). While we should relate our aims in the expansion of the public service to our growing wealth as reflected in the rising yield of revenue, we cannot generate, or cut back, expansion at short notice in rhythm with the economy. We are always likely therefore to be behind the movement in revenues and this will tend to throw up surpluses—or deficits. And, as I remarked last year, the year 1967–68, when most of us were busy with other problems than the expansion of public services while the economy continued to grow, we lost a year or so in timing and a longer gap opened up between revenue and expenditure which we have not yet been able to close again. 58

Cowperthwaite’s lengthy explanation was fully corroborated by one of his deputies, who explained to me:

The government as a whole is notoriously bad at estimating. Revenue estimates for each financial year are sent by the departments to the Accountant General and then passed on to us with far too little time to examine them in depth and arrive at a more realistic figure. Once I wrote a letter to all department heads urging them to prepare their estimates more accurately and I received exactly one reply.

Haddon-Cave wasted no time in blunting unofficial criticism of government’s alleged conspiracy to economize on social services, by deliberately underestimating revenue and overestimating expenditure.

Both my honourable Friend Sir Yuet-keung Kan, when he referred to “Government activity [being] moulded and restricted by a financial policy which . . . has erred on the side of conservatism and pessimism” and my honourable Friend, Mr. Szeto, in somewhat more colourful language, accused successive Financial Secretaries of deliberately underestimating revenue in order to slow down the rate of
growth of expenditure, retard the development of social and community services and/or generate surpluses.

There are several points to be made here: in the first place, this is simply not true. Of course, Financial Secretaries will always err on the side of caution, but not for the Machiavellian reasons ascribed to them by my honourable Friends. Secondly, I wonder how free and easy our critics inside and outside this Chamber would be about what my honourable Friend Mr. Browne has described as the "credibility of the Estimates" if we were not operating against a strong reserve position. And strong we intend to keep it, despite the fact that on my last count various commentators, again inside and outside this Chamber, have spent our reserve several times over. Thirdly, just how inaccurate have our estimates of revenue in fact been in recent years? Only in the last three years, at a time when we were enjoying what I described in the budget speech as a "remarkable growth movement", has revenue exceeded our expectations by substantial amounts: in percentage terms, actual revenue exceeded the original estimate by 14% in 1969-70, by 19% in 1970-71 and by 13% in 1971-72. In the previous four years, the error ranged from -1.2% to +6.6% only. Fourthly, I cannot believe that my honourable Friends do not wish an adequate degree of control to be exercised over the rate of growth of expenditure, but we do this directly and not indirectly by fiddling the revenue estimates. Indeed, it is with the utmost reluctance that we ever take the easy way out and say of such and such a proposal or project that we cannot afford it. 

Under Clarke, Cowperthwaite, and Haddon-Cave, departments have inaccurately estimated revenue and overestimated their ability to spend, but each Financial Secretary prefers the cautious, perhaps pessimistic, view of revenue estimating. Better to accumulate reserves than face possible cutbacks in overexpanded and inflated government programs predicated on a greater revenue basis. Indeed, the rapid rise in growth of revenues almost appears to have been unanticipated by successive Financial Secretaries. Clarke remarked in 1955, for example, that "the recent growth [of revenue] can only be described as remarkable." Although he praised the colony's tax-gathering departments for their diligence, he attributed revenue increases chiefly to the continuing economic development of the territory. In 1959 he again applauded the efficiency of tax collection. Five years later, however, Cowperthwaite reminded the Legislative Council members:
It is simply that in recent years our economic growth has been such that expenditure could not, and indeed should not, keep pace. . . . That revenue has increased in this way is in no small measure, I am convinced, due to our low tax policy which has helped to generate an economic expansion in the face of unfavorable circumstances. 61

Recurrent Expenditure. The Financial Secretary's watchful eye over increases in recurrent expenditure has reinforced the tendency toward budgetary surplus. Civil service salaries are unalterably the most difficult area in which to cut back government expenditure when revenue yields decline. An early instance of this concern appears in Sir Geoffrey Shield Follows's 1946 budget:

The Government is however fully alive to the necessity for reducing expenditure on Personal Emoluments to a normal figure at the earliest possible date and to the desirability of employing as many locally recruited officers as possible. 62

Arthur Clarke kept in tune. He worried out loud in 1958, because of a rapid expansion in the civil service, that "It is this increase in personal emoluments and the consequential increase in Other Charges, Annually Recurrent, which must, I think, give cause for some little concern for the future." 63 He pointed out:

Recurrent revenue can be very vulnerable to even a slight recession in economic activity, whether in Hong Kong or elsewhere, particularly in certain items which are higher at the moment than they should be because of special local circumstances; recurrent expenditure, on the other hand, is something like Old Man River; it just keeps rolling along, and can be restrained only by very special measures. 64

Chanting in chorus, Cowperthwaite harmonized in 1963 that "Recurrent expenditure is adjustable only within fairly narrow limits; while capital expenditure cannot be generated, or brought to a standstill, overnight." 65 Last, but not least, Haddon-Cave painfully endures a rising government wage bill, painful for the reasons that recurrent expenditure is most difficult to abandon during hard times.
Taxation

The last element in the panorama of budgetary policy is taxation, representation being off the point. Hong Kong has the lowest standard rate of tax on earnings and profits of any industrial state. On this point, as on other aspects of economic and budgetary policy, Hong Kong’s financial czars preach with consistency. The result is paradoxical, but comforting. The official line is Gladstone reincarnated: a narrow tax base and low standard rates of direct taxation facilitate rapid economic growth which generates high and ever-increasing tax yields. These revenues, in turn, finance an extremely ambitious program of public expenditure on housing, education, health, and welfare services, and on other forms of social and community services, with virtually no need to resort to loan finance. Each Financial Secretary repeats the message: Investment is stimulated by low rates of direct taxation, limiting charges on profits and earnings to activities within Hong Kong, and imposing no tariffs or controls on the movement of capital.

Arthur Clarke successfully avoided a tax increase throughout the 1950s; he insisted in 1955 that "Any considerable increase, I say deliberately 'considerable increase', in the rate of direct taxation at a time when the economy is strained might well in the end bring about a reduction of revenue rather than an increase." 66 Five years later, facing a large prospective deficit for fiscal 1960–61 (on the heels of the first serious postwar deficit the prior year), he cautioned: "We would do well to delay an increase in our direct taxation rate, the low level of which is such an incentive to our expanding economy, on which in turn we depend for increasing revenue." 67

Confronting an estimated deficit of $168 million for the 1962–63 fiscal year, Cowperthwaite, in his first budget debate, also rejected the plea to raise the direct rate of taxation.

. . . It has been represented that we should take the money while it is there; in a year or two profits may not be as high and the taxable funds will have slipped through our hands. I personally reject that argument. Enterprise in Hong Kong has a good record of productive re-investment and I have a keen realization of the importance of not
withdrawing capital from the private sector of the economy, particularly when it is responsible for an important part of the public services. I am confident, however old-fashioned this may sound, that funds left in the hands of the public will come into the Exchequer with interest at the time in the future when we need them. 68

The theme that low rates of tax encourage rapid rates of economic growth is the cornerstone of financial policy. In its 1964 rendition Cowperthwaite claimed:

> That revenue has increased in this way is in no small measure, I am convinced, due to our low tax policy which has helped to generate an economic expansion in the face of unfavourable circumstances. Recurrent revenue has more than doubled in the five years since 1958–59 with no significant change in taxation; this increase is equivalent to an increase in the Earnings and Profits tax rate, on that year’s income, from the actual 12½% to something like 80%. High taxation could not itself have produced this increased yield.

> ... Economic expansion remains the door to social progress and I am convinced that in our circumstances low taxation can in general produce a greater growth in revenue than can tax increases. 69

Two years later, he reconfirmed Hong Kong’s golden rule of low taxation, “that low taxation can often generate more additional revenue by its stimulating effect on the economy than can increased taxation—a theory now being startlingly substantiated by America’s present policy of tax reductions.” 70

Moments later, even as he raised the standard rate from 12.5 percent to 15 percent—the first such increment in sixteen years—he warned that 20 percent is the maximum direct rate of taxation which can be imposed on the economy without danger of serious damage. The increase was made, of course, in response to the $137 million deficit that emerged from the 1965–66 fiscal year, the worst deficit in modern times (until 1975). A small tax increase, for Cowperthwaite, was less onerous than the prospect of future deficits. One of these two cardinal sins of fiscal policy had to give way to the other, short of an immediate substantial cutback in programmed spending.

Indeed, the tax increase, combined with a paralysis in spending during the 1967 civil disturbances and the economic boom which
followed thereafter, generated a surfeit of revenues which allowed the Financial Secretary to eliminate or reduce minor taxes which he found inequitable, irritating, or particularly difficult or expensive to collect. Accordingly, in 1967, he eliminated the broadcast-receiving license, halved from 2 percent to 1 percent the stamp duty on the conveyances of property valued under $20,000, and reduced estate duty tax from 40 percent to 25 percent. In subsequent years he eliminated or reduced other minor and irritating taxes.

Not only do low taxes stimulate investment and rapid economic growth, in the official view, but also the absence of a full income tax and its associated inquisitorial powers is deemed equally virtuous. In 1967 Cowperthwaite explained why he preferred the system of paying taxes separately on each facet of one’s earnings:

My honourable Friend Mr. Li has once again, in connexion with our need for increasing revenues to match increased expenditure, had the political courage to advocate a full income tax system and has asked me how I came to descend from that previous state of innocence in which I was inclined to agree with him. I do not propose to make a full confession, but merely mention one or two factors in my lapse from grace. One of these is an increasing awareness of the benefits to our economy, particularly in terms of investment and enterprise, both local and from overseas, of not having the inquisitorial type of tax system inevitably associated with a full income tax.

Cowperthwaite reminded the Council in 1970 that 20 percent was the maximum rate of earnings and profits tax that could be imposed without danger to the economy, without discouraging investment or driving capital abroad; at the same time he also explained why the tax rate was not lowered in light of recent budget surpluses:

The reaction of the other group is that the accumulation of such surpluses, even in the short-term, calls for a reduction in taxation. This would, of course, be possible, but again I continue to maintain that the important thing for sustained economic growth is not only a low but steady tax structure. It is clear that one day we shall have to increase taxation to provide the public services we aspire to but the
longer we maintain our present rates of tax, which demonstrably have no ill effect on economic growth, the longer it will be before we have to push taxation higher to levels where the effects on growth and prosperity are less predictable. 73

A low and steady rate of taxation is the hallmark of Hong Kong public finance. Coupled with a noninterventionist economic policy, the underlying economic theory of financial administration is as orthodox as a textbook treatment of perfect markets.
The Budget

Within the scope of the public finances of Hong Kong, the summaries of estimated expenditures commonly called the estimates constitute one part of the overall financial plan presented in a document known as the budget. The function of the budget is to bring the estimates into comparison with past expenditures, current appropriations, and the resources available with which to meet the proposed expenditures. Clearly prepared estimates allow the appropriating authority—the Legislative Council—and the general public to readily determine the extent of changes in expenditure policies and to see why increases or reductions are proposed. The essence of the budgetary system is that the fund-raising and granting authority be presented with a balanced statement of estimated receipts and expenditures, so that it can make up for a prospective deficit by increased taxation, or it can apply a surplus to the general revenue balance or to a remission of taxation.

The estimates of expenditure constitute the most important document in the public finances of Hong Kong. Revenue decisions are determined chiefly by the Financial Secretary, though he invariably consults with the Governor and other interested parties; he is not quite as much a monopolist on spending decisions.

Preparation of the Budget

On 7 September 1973 the Deputy Financial Secretary distributed Financial Circular No. 23/73 to all department heads. It began with the following comment:
This Circular calls for submission of draft Estimates for the financial year 1974–75 and advises generally on their preparation. It supplements and does not replace the instructions on the preparation of Estimates in Financial Regulations 200–295. It should be read by Heads of Departments, Departmental Secretaries and Accountants, and by all other officers concerned with the preparation of the Estimates.¹

In addition to the date by which each department must submit its estimates and the overall timetable for the estimates season, the circular contains a number of special points of interest. First, each head of department is advised that he must personally sign his department’s submission of draft estimates on forms G.F. 9 and 10 and also sign all accompanying memoranda. “References to Secretariat authorisation must be quoted in all cases where appropriate.” He is warned by the Deputy Financial Secretary that an inadequate presentation in the department’s explanatory memoranda may result in items being excluded from the draft estimates.

Second, heads of departments are advised to include in the annually recurrent personal emoluments requests only those establishment changes for which prior approval has been obtained from the Establishment Subcommittee of Finance Committee. Third, heads are reminded that recommendations affecting the estimates which involve an important point of principle must have been submitted to the Secretariat before the end of June each year (in accord with Financial and Accounting Regulation 233). Otherwise, these recommendations may be deferred for consideration outside the context of the draft estimates. Financial Circular No. 23/73 is, thus, a relatively straightforward document that fully complies with the financial regulations of the Hong Kong government.

Heads of departments use a number of special forms to prepare the annual draft estimates. Form G.F. 9, for example, covers all annually recurrent personal emoluments expenditures. Column six of this form specifically requires a reference to Secretariat approval to justify additional or deleted posts. Form G.F. 10 contains not only the forecast estimates of expenditure by head for the next financial year, but also a statement of actual expenditure for the last three financial years and the revised estimate for the current year. This comparison with past performance allows the Finance Branch
The Budget

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to evaluate proposed expenditures against prior spending. Forms G.F. 118A through 118D are required in support of personal emoluments requests that entail changes in either permanent or supernumerary posts (the latter requiring annual approval for retention). Form G.F. 124 is used to prepare annual estimates of revenue, the accuracy of which is a subject for frequent discussion. These forms are an integral part of preparing the estimates.

Financial Circular No. 13/73, which was distributed to heads of departments on 2 June 1973 for advice on the preparation of personal emoluments subheads, further seasons the flavor of budgetary policy which I spelled out in the prior chapter. Paragraphs 2 and 3 set forth Finance Branch’s view on the preparation of personal emoluments subheads.

2. The annual occasion of preparing Personal Emoluments Estimates is the opportunity for Heads of Departments to review and take stock of their departmental establishment; to relinquish posts which are no longer required; to consider the deletion of posts which have remained vacant for a substantial period and to examine alternatives; and generally to endeavour to maintain establishments at the minimum-size consonant with efficiency—not only for financial reasons, but to assist good management and satisfactory control. It is the opportunity to put forward proposals relating to normal increases in establishments, to enable departments to maintain existing services and to implement approved policies.

3. The annual Estimates are not an opportunity to put forward proposals for additional staff involving regradings, or important points of principle (see FAR 233), or major changes in the location of functions in the departmental organisation. Nor are they an appropriate occasion on which to put forward proposals for substantial increases in staff, or additional directorate posts. Such submissions should be put forward outside the context of the Estimates so that C Division of the Finance Branch has an adequate opportunity to assess the proposals as presented in the revised format.²

Since departments often meet with extreme difficulty in recruitment, the circular suggests that expansion of the civil service be kept to a minimum. Mechanization, putting work out to contract, and improved supervision of junior staff are recommended as means of controlling expansion. Heads are also advised that C division of
Finance Branch will consult with Secretariat policy branches as required, prior to the drafting of an Establishment Subcommittee estimates paper, and any submission which is neither comprehensive or convincing may be returned to the department for revision.

A number of financial circulars are also prepared by the P.A.F.S. (2) for distribution to the complementing and grading wing of Finance Branch; these generally concern the personal emoluments estimates and Establishment Subcommittee papers. Financial Circular No. 10/73, for example, instructs C division staff on dealing with personal emoluments submissions. This circular is an internal management document that tries to insure proper handling of departmental submissions; moreover, complementing and grading personnel are informed that memoranda drafted for heads of departments notifying them of C division decisions should be written informatively and "with tact (e.g., avoid the use of the word rejected)."

The central aspect of budgeting in Hong Kong is that the estimates are to reflect no new policies, but only the request for funds to carry out approved and existing policies. References to Secretariat authorization constitute an important element in the evaluation of departmental submissions.

Funds requested for continuing items that are based on approved policies tend to be summarily approved. New measures are the focal point of discussion in the whole budgetary process. Recall that Financial Regulation 212 states that any proposed increment or decrement in expenditure must be fully justified. The spirit and letter of this regulation dictate an incremental view of budgeting that is shared by heads of departments along with Finance and Economic Branch personnel.

One Economic Branch officer agreed that "increments to a department's activity are given much more time and consideration than any overall evaluation of status quo activities." His counterpart in Finance concurred:

It is not common practice when reviewing a department's budget request to examine their present efficiency in use of staff, if no new staff positions are requested. If, however, any new posts are requested, a review is done of existing operations to insure that efficient use is being made of existing staff.
One head of department strongly corroborated this *de facto* procedure:

We have had no staff increase since 1960. ... ordinance came into effect in 1961, and we had built up our staff to cope with requirements of the job in advance. There has been no staff increase or reduction since then. Accordingly, the budgetary routine is straightforward and merely rubber stamped in the Secretariat. We are an executive arm of the government. The purpose of our budgeting is simply to enable us to implement statutes.

Let us once again review how the estimates are prepared. In response to the Deputy Financial Secretary’s circular, estimates of revenue and expenditure are prepared within each department, often by a treasury accountant seconded to the department, sometimes by the head himself, or perhaps by the deputy head or departmental secretary (although the head must accept ultimate financial responsibility). The Financial Secretary examines and adjusts the revenue estimates in personal consultation with the revenue-collecting heads of department. A stack of colored expenditure estimates forms also arrives in the Secretariat and is reviewed by the various units in Finance Branch, often in consultation with an appropriate “policy” branch. Requests for new staff are cross-checked against Secretariat file references. Then finance staff and departmental officers thrash out the disagreements. Staff requests are also examined by Establishment Subcommittee of Finance Committee. The Financial Secretary may also look at each departmental estimate as it comes off the assembly line and deal with contentious matters that arise. He may also, in consultation with heads of department, try to remove what he perceives to be overestimates of spending capabilities.

After the estimates have been assembled into the formal *Draft Estimates of Revenue and Expenditure* (with supporting documents), they are presented to Legislative Council in the form of an Appropriation Bill. Legislative Council passes the estimates to its Finance Committee for detailed examination and, in the meantime, debates the budget in the course of the second reading on the bill. The Committee reports its findings back to the Council, which then votes on the Committee stage of the Appropriation Bill, amending it
in accordance with any approved recommendations of the Commit­
tee. The Bill is then given its final reading and passes into law. The
final Estimates reflect Council expenditure amendments.

Since the Finance Committee includes all the unofficial members,
there is little difficulty in securing legislative approval; unofficial
members have often already voiced their objections in Finance
Committee meetings. Expenditures outside the scope of the ap­
proved final estimates must fit within authority delegated by Legisla­
tive Council itself or receive approval in the form of a supplementary
request. Form G.F. 122 must be filed in support of a supplementary
provision, and any request to transfer funds between subheads of
expenditure as listed in the approved estimates must be submitted
on Form G.F. 122A, an application for virement between subheads.
Delegation of financial autonomy is an important issue, especially to
department heads, but all expenditures outside the scope of the
approved estimates require supplemental approval. The annual es­
timates, combined with supplemental provisions, constitute the
basis of public spending.

The Budgetary Process

The Financial Secretary

Despite disclaimers of political power, the Financial Secretary is
the linchpin in the annual estimates exercise. Cowperthwaite has
repeatedly tried to dispel allegations that he exercised unchallenged
dictatorial power on financial matters. In 1964, for example, he
insisted that estimated deficits or surpluses are merely the math­
ematical result of the separate revenue and expenditure estimates
and that “we have never in recent years used our estimated deficits
as a justification for substantially increased taxation, nor, converse­
ly, to reduce the rate of expansion of the public service.” The
following year he again sought to clarify his view of budget proce­
dures.

I should like next to take my opportunity to-day to try to dispel
some misconceptions which seem to be prevalent about the powers
and purposes of a Financial Secretary in the making of our budgets. It appears that many people are under the impression that he sits at his desk and with dictatorial ruthlessness slashes away at requests by Departments for the funds they consider necessary for the carrying out of their policies and purposes, and so, fashions the shape of the year’s public services to his own conservative view of the prudent extent of public expenditure. It does not happen at all like that. I doubt if I can influence the amount of the year’s estimate of expenditure by more than a very few million dollars. The estimates, year by year, flow, not from my arbitrary judgement, but from a multiplicity of decisions continuously being taken by Government as a whole on the desirable, and possible, rate of priorities of expansion of our public services, mostly in the shape of long-term programmes or objectives.

What I do attempt to do is to ensure that, while agreed policies are put into effect efficiently, this is done with all due economy; to ensure that the estimated expenditure for the year is realistic in relation to a department’s ability to spend (but without thereby imposing a brake on its planned activities); and, particularly but not only for the longer term, to ensure, so far as one can foresee these things, that we do not pitch our aim so high, in terms either of quantity or quality, that we are unlikely to be able to reach our goal without imposing excessive strains on the economy or killing those geese which have been such prolific layers of golden eggs in recent years, and which it must also be the aim of financial policy to foster.

In his 1968 budget speech Cowperthwaite again disavowed responsibility for the disparity between estimated and actual deficit/surplus. He noted that “in spite of certain speculative press comments to the contrary, I did not cut the budgetted allocations of any department during the course of the year. The reasons for under-spending are quite otherwise.” Concluding his speech, he reiterated his comments of three years earlier:

The truth is, as I have said more than once before, that there is little scope for influencing the shape or form of any one year’s expenditure in the context of that year’s Budget. The expenditure estimates flow from a multiplicity of decisions already taken, some during the previous year, some years ago.

And again, in 1969:
But this brings me up against Mr. Kan's dislike of "priorities set by one department or one man." I suspect that he thinks that I am that one man, this a fallacy which I have often attempted to dispel. Decisions on priorities and programmes of expansion are not taken by one man, not even by me; they are arrived at, so to speak, as a resultant of various forces, various views, knowledge, judgement, etc.\textsuperscript{9}

These disclaimers are persuasive and represent, in times of financial prosperity, a plausible account of budget preparation. Is, however, the Financial Secretary's authority more pervasive in disputes about reductions in spending during less prosperous times? Indeed, Cowperthwaite noted in 1964 that "In a period of financial stringency things are different."\textsuperscript{10}

How different are they? In 1955, for instance, Arthur Clarke volunteered that his pruning shears had been sharpened to a fine edge:

[The small deficit in the estimates] would have been very much more but for the fact that many of the departmental estimates have been severely pruned, and I would like to express my thanks to those Heads of Departments who accepted my suggestions for reductions, or some of them, if not with enthusiasm, at least with some degree of resignation. . . . It will be necessary to tighten up financial control from now on; there can be no question of overspending votes without the fullest justification and without approval in advance.\textsuperscript{11}

In 1961, his outgoing year, he once again sharpened the pruning shears.

I mentioned that I proposed to apply the brakes to expenditure. This was done. Heads of departments were forbidden to spend more than one-half of their voted provision during the first six months of the year unless with specific permission. They were requested to save 10\% of their recurrent provision. They were prohibited from spending any money or even committing any votes for Special Expenditure without prior approval in each individual case. . . . These restrictions, onerous as they were, were, in general, loyally accepted by departments. The results have been reasonably satisfactory. Total expenditure will, therefore, be less than estimated.\textsuperscript{12}
Clarke was not the ogre nor Cowperthwaite the saint. Despite Sir John’s 1964 and 1965 disclaimers of financial dictatorship, the 1965–66 fiscal year deficit helped motivate him to raise the standard rate of tax from 12.5 percent to 15 percent. Here, in a time of scarcity, he reveals the Financial Secretary’s authority:

I come now to the expenditure estimates. This year, because of expected deficits, I addressed a special plea to Heads of Departments to keep their estimates as modest as they reasonably could in the light of their essential needs or of planned policies of expansion. It seemed to me necessary and desirable to treat next year as a year of consolidation rather than of growth. They have responded admirably and I am grateful to them; but, even then, I and my colleagues have had to wield the traditional axe a little more forcibly in some cases than has been usual in recent years; although not, I hope, in a way that anyone considers unreasonable.  

Much of Haddon-Cave’s early tenure enjoyed enormous surpluses; the 1972–73 surplus was so large that he transferred about $500 million from the surplus to recurrent expenditure, in the form of the government’s equity commitment to the new underground mass transit scheme. This reduced an otherwise unthinkable and politically sensitive surplus of nearly $1,200 million to under $700 million. How can a Financial Secretary demand caution and restraint in the face of gigantic budget surpluses? Curiously, it has been the oil crisis, along with a catching up of expenditures with revenues, which has restored the Financial Secretary’s credibility.

As early as 1972, a good year, Haddon-Cave began to warn of the problem of ever-increasing supplemental requests:

Taking only those agenda items which sought specific sums by way of supplementary provision, the total amount approved to 9th February last was $364 million compared with $301 million for the whole of 1970–71 and $191 million for 1969–70. I must warn heads of departments that, in 1972–73, the Finance Branch will have to look at applications for supplementary provision rather more stringently for the ratio of supplementaries to original estimates is getting a little out of hand.
By 1973, Haddon-Cave noted that supplementals during the 1972–73 fiscal year had already totaled $525 million by the middle of February, despite his injunction the previous year. And in 1974 he sharply complained that supplementals in the amount of $667 million up to 9 January, the cutoff date for the inclusion of supplementary provisions in the draft estimates, had to be sought.

Indeed, one might construe the Financial Secretary’s 1974–75 budget as an effort to regain full control of the colony’s public finances. He noted that Finance Branch had prepared the 1974–75 estimates in more difficult conditions than in previous years, owing to the revenue leveling off from the oil crisis and “also because departmental requests were pitched well above the approved estimates for the current year.”

In this situation, we must ask ourselves whether the Estimates have been prepared with sufficient care. Departmental submissions amounted in all to $6,252 million of which $4,114 million was on recurrent account and $2,138 million on capital account. After Finance Branch processing to correct errors, to remove expenditure not covered by approved policies and to effect all reasonable economies, these figures were reduced to $3,937 million and $2,015 million respectively, a total of $5,952 million. After considering what the overall budgetary strategy should be, and even after I had pushed up the Revenue Estimates as submitted by departments and processed by Finance Branch by $355 million, I had to ask the Finance Branch to take off at least a further $200 million from the first draft of the Expenditure Estimates.

In a section of his 1974–75 budget speech subtitled “Financial Control,” Haddon-Cave warned of a needed tightening of financial allocations by government:

In our anxiety to get the rate of expenditure up in recent years as the economy and revenue yields surged forward after 1967, there has been a tendency to concede applications for supplementary provision regardless of wider budgetary considerations. We have reached the point where a new attitude is required if our developing policies are not to be seriously prejudiced.

Seeking to present a balanced budget for the 1974–75 fiscal year, he proclaimed:
In 1974–75, heads of departments will be expected to keep within the provision in the Estimates. In the past five years applications for supplementary provision put to Finance Committee have risen sharply and have vitiated the annual budgetary exercise. But we can no longer allow annual expenditure to exceed the original estimate as has been the case in the last four years.20

Finance Branch will, from now on, take an austere view of requests for supplementary provision.21

The Financial Secretary and his Finance Branch have not swung arbitrarily with the axe in years of lean revenue. They generally have prior agreement with the Governor and Colonial Secretary, and they hold extensive consultation (argument) with the departments. Some departments are inclined to accept cuts more readily than others; the more recalcitrant are necessarily pressured into conformity with the overall spending package. Armed with the Governor’s concurrence in the need to cut, the Financial Secretary has the authority to roll back department requests, even over the intensively voiced opposition of the department in question.

Finance Branch

A Finance Branch officer’s lot is not always a happy one. Not only does he bear the brunt of the department’s grievances, but just working for a Financial Secretary can itself be exasperating. The Financial Secretary usually chairs a weekly meeting of key personnel in his branch, which permits him to supervise and direct his staff. One administrative officer with five years’ experience in Finance Branch vividly recalled what it was like for him to work under Cowperthwaite:

You always had the feeling that Cowperthwaite was looking over your left shoulder. You knew that he would ask at least five questions about any proposal that was submitted. If you couldn’t figure out what to ask, you tended to sit on the submission. Indeed, often you had the task of explaining Cowperthwaite’s decision to a department, even when you didn’t fully understand the basis of the decision yourself.
A professional officer with more than eighteen years' experience in government service, nine of which involved him in his department's annual preparation of the draft estimates, firmly believed that Cowperthwaite ordered his men to go after submissions with hammer and tongs: "The estimates are like a turkey shoot—you clear one hurdle after another only to encounter further obstacles. They shave off, shave off, 10 percent here, 10 percent there." This shaving, though, is perhaps the finance officer's reduction of an overestimate of expenditure, and not any real brake on spending.

The participants to the decisions which ultimately comprise Hong Kong's public finances include the Finance Branch, led by the Financial Secretary, and the spending departments, whose ostensible allies are the Secretariat's "policy" branches. Since Finance Committee and Legislative Council change little of what is put to them, an analysis of the politics of estimating narrows in on the two chief sets of participants. Although Finance Branch is under different pressures from the Governor, the "policy" branches, and the spending departments, its conservative bias can be rationalized in the following terms:

1) Having the overall view of government spending activities, Finance Branch is in the best position to interpret and advise the policy-deciding part of government—the Executive Council, on which the Financial Secretary plays a major role—on the implications for priorities of any proposal or series of proposals, to insure that the question of spending priorities does not go by default.

2) Finance Branch believes some spending departments to be financially irresponsible, displaying a tendency to overestimate what they can in practice spend on approved activities, thus insisting on centralization of finance.

3) Finance Branch most vigorously adheres to the value-for-money standard and is constitutionally charged as the public watchdog.

The Overall View. It is a universal belief of finance ministries that spending departments seek high priority for their activities, with little appreciation for the overall competing priorities of government. Cowperthwaite aptly characterized this dilemma in 1968:
When I asked Heads of Departments this year to prepare their expenditure estimates, I asked them to be specially careful in their submissions because of the financial uncertainties at that time; and I asked them also to consider, in respect of major schemes of expansion, whether, in the light of rather tighter priorities, any of them could be postponed or reduced in scope. I did not, let me make it quite clear, require them to make any cuts, either of general scope or in particular fields. The need for such, shall I say, ruthless action, has fortunately not come. Some Heads of Departments have clearly heeded my request; others, I am afraid, have gone ahead much as usual, some, admittedly, because they were clearly justified in doing so or could not help it; others, I am afraid, because of the general high priority they consider all their departmental schemes and activities deserve—and, of course, one must admit that it is difficult for any individual Head of Department to relate his work, in terms of priority, to that of others. This is the perennial problem of financial administration. 22

Cowperthwaite's recognition of this dilemma was reaffirmed by several finance officers. One chief executive officer in complementing and grading noted:

We can take the broader view. A department head sees the world only as his department, especially if he is a professional head of department and not an administrative officer. We have to coordinate activities between departments, since a spending program for one might have implications for other parts of government.

Centralization. One recurring issue in budgetary practice is the extent of financial autonomy that is, and should be, delegated to heads of departments. This issue is clear-cut: Finance Branch adheres to its constitutional position of maintaining central control; the departments seek a maximum of delegated authority. Cowperthwaite has aptly argued the finance side of the coin. At one point he examined the technique of block votes as a proposed solution to the excessive centralization of the control of finance:

As to block votes themselves in any large sense, they are generally unsatisfactory devices. To set them at a reasonable level involves some pre-knowledge of what they are to be used for; while it is
virtually impossible to consider a request for supplementary provision, because there has been no prior sanction of the objects on which the original vote has been spent. What block votes may give in flexibility of the objects on which they may be spent is offset by their inflexibility as to amount.

We have been engaged in recent years, successfully, in broadening the scope of financial delegation (which is by no means always popular with Heads of Departments), but this cannot be taken too far without prejudicing the Government’s and this Council’s general control. I attach the very greatest importance to preserving the latter of these from erosion—even in the interests of departmental enterprise. I am perhaps excessively conscious that the financial support for such enterprise derives from this Council’s exercise of its power to appropriate the private resources of the taxpayer.\(^{23}\)

Despite Cowperthwaite’s claim that financial delegation is not always popular with heads of departments, those I queried almost uniformly favored increased delegation and the adoption of more, larger, and more encompassing block votes. One head of a department with an extensive staff and a variegated collection of tasks was quite adamant in his preference for a block vote system of authorization over the present system of authorization by head of expenditure: “I, myself, would prefer one block vote. If I overspend, then let me put up a case for the supplement, or, let them sack or demote me. But let me get on with it.” And those heads in control of block votes generally indicated their support for maintaining and extending the system.

The Financial Secretary has generally favored increased delegation of financial authority from Finance Committee and the Estimates. Revenue and expenditure have grown some twentyfold between 1950 and 1974, and inflation alone would overburden the Financial Secretary with required evaluations of far too many items than his time would permit in the absence of greater delegated authority. In 1974, for instance, Haddon-Cave reduced the number of different subheads for annually recurrent other charges in departmental heads of expenditure; also, “items within subheads have been deleted, except where they are required for expenditure control, and thus heads of departments will enjoy a greater degree of flexibility than before.”\(^{24}\)
Without question, however, the bulk of delegated authority has been granted to the Financial Secretary and his aides, not to the departments. Note Haddon-Cave’s reply to the unofficials in 1972:

Furthermore, our system permits a degree of flexibility which is probably unique (certainly in my experience): I refer to the Financial Secretary’s delegated powers to authorize spending on personal emoluments up to the limit of the approved establishment (and not to the vote provision in the Estimates which is purely an estimate of requirements); I refer to the Financial Secretary’s delegated powers to authorize spending on public works projects up to approved project estimates; . . . and finally, Sir, I refer to the fact that total vote provision, or spending authority, has in recent years been around 112% of actual expenditure and around 115% of the original estimates. In this connection, Sir, I am grateful to my honourable Friend the Director of Public Works, who ought to know since he is by far our largest spender, for his reference just now to “the extreme flexibility of our financial system.”

Value for Money. A young Chinese administrative officer in Finance Branch repeated throughout our conversation that he was paid by the public to watch over public monies. This viewpoint applied uniformly over the entire Finance Branch and is not popular with all spending department heads. Although value for money is the criterion for judging departmental submissions, this young officer categorically insisted:

We rarely refuse any reasonable request. The departments can get satisfaction by calling an Assistant Financial Secretary, the Deputy Financial Secretary, or even the Financial Secretary as the case may be. If the department believes we are mean or simply routinely cut their requests, this belief can be traced to their trying to pull a fast one on us—asking for $5 million with two sentences justification and not having obtained the proper approval—or the fact that they so habitually underspend so that this year we cut them back. If matters outside their control such as inflation or price increases require that we increase their funds, we invariably ask for a supplement equal to the cutback.

How does Finance Branch insure value for money? Cost control, automation, holding down recurrent commitments, detailed queries
on submissions, encouraging economy, and requiring full justifica-
tion for items requested are part and parcel of Finance Branch
routine. From Arthur Clarke through Philip Haddon-Cave, Hong
Kong Financial Secretaries have always worried more about grow-
ing commitments to recurrent expenditure than one-shot, even cost-
ly, layouts for other charges or special expenditures. One head of
department explained how he tries to justify his requests:

Staff costs are scrutinized more carefully than capital costs. The
Finance Branch always looks for automation, which is perfectly
consistent with my future plans. Even so, however, they still invari-
ably ask if we can't make do with a cheaper piece of equipment.

Preference for automation over endlessly increasing recurrent
staff commitments reflects an ethic for economy. This ethic is wide-
spread throughout government, shared by departments and Finance
Branch alike, and mutes, therefore, the conflicts that typically arise
between spenders and authorizers in other countries. One journalist
noted that economizing was a particular virtue of the Chinese,
applying even to those in government service. He pointed out that
"Chinese civil servants believe it is a virtue for government to have
a surplus on its books each year." Another civil servant, a European
head of department, extended this view of the scrupulous Chinese to
include himself. Pointing to a copy of his budget tacked on his office
wall, he claimed that "I should be able to save some money from
other charges this year."

Cause and effect here is somewhat difficult to disentangle. Are the
departments practicing economy both because of their inability to
recruit qualified staff and, perhaps, their notorious inaccuracy in
estimating, or have they been conditioned through the years to
accept Finance Branch judgments in matters of money and dare not
overspend, save in years of large surplus? One deputy head of
department with prior extensive service in the Secretariat noted that
his unit was "about 150 men short of staff, and manpower problems
pose limitations on what we can spend and accomplish. Govern-
ment reserves are chiefly due to our inability to spend and fully staff
our authorized activities."

Another department head, a professional with no Secretariat
experience, confirmed this view.
Departments are unable to spend all of their allocation simply because it is impossible to recruit staff at government pay rates in view of greater earnings on the outside during a period of economic boom. Moreover, the Financial Secretary watches recurrent expenditure items closely since they comprise long-run commitments; capital expenditure items are easier to get.

Although pressure from Finance Branch encourages departments to be watchful, the economy ethic appears to be innate as well. A recently appointed Chinese head of department remarked to me that "we save the government money because I suggested they replace our chief executive officer with a senior clerical officer and they agreed."

_Differential Treatment of Departments._ Finance Branch typically screens some departments' requests with greater scrutiny than others. The Financial Secretary grants considerable autonomy to the departments which display competence and practice economy; others receive a more watchful eye. Since Hong Kong is small and highly centralized, the Financial Secretary can easily keep tabs on each department head, concentrating his efforts as he deems necessary.

One civil servant described how Finance Branch actually deals with the submissions it receives:

Although Finance Branch insists that each request is judged on a case-proven basis, the fact is that they judge the credibility of the department head and screen estimates with the required degree of scrutiny. This certainly applies the higher up one ranks in Finance Branch.

Throughout my discussions Secretariat personnel and other heads repeatedly cited the same few departments as notoriously laggard in virtually all their activities, with budgeting and spending no exception. Despite efforts to upgrade personnel, one Secretariat officer acknowledged that "there are still some incompetent department heads in Hong Kong." Another noted that "while it is not impossible to get rid of inept department heads, it simply is not done." Another suggested that "smarter people generally tend to go
into the Treasury and have little patience with the people they deal with who are not so smart.' Yet another, pointing to a specific department, argued that ‘_______ are not too bright. The Finance Branch has the right to query submissions and as often as not the _______ do not consider any alternatives when they put up proposals.’ The same department received a caustic remark from one middle-ranking finance officer. ‘We don’t particularly like the _______. They invariably go directly to the Governor and don’t put up a good case.’

It was frequently mentioned, both inside and out of the Secretariat, that Finance Branch personnel knew more about the activities of certain departments than did their heads; indeed, that some heads of departments did not know how much they were spending and could not accurately cite the size of their budgets to within $5 million.

**The Spending Departments**

The spending departments are the challengers of Finance Branch in their quest for authorization to spend. Not all department heads lack the ability to spend and fight for their submissions, nor do they all readily cower to the ‘all-powerful Finance Branch.’ Many are sophisticated advocates of departmental missions and priorities, convinced of the importance of their own cause. The brighter and more competent heads employ a basket of techniques to pry money loose from the Financial Secretary’s purse.

*Advocates of Their Own Cause.* If a department head is correctly doing his job, he is a forceful advocate of his own cause, convinced of its importance, and determined to carry on and, where appropriate, expand his activities. He sometimes does his job with little regard and interest in the overall economy. He is a high-level bureaucrat, a creature found in all political environments, but one of special importance in Hong Kong, since appointed, not elected, officials make policy and spend monies. Even the head of department who subscribes to the doctrine of a free-trade economy still attempts to expand the activities of his department in the interests of
his career, his staff, and the clients he serves among the citizenry. In an interview with a recently appointed head of a major department, one who has often stressed to me the virtue of nonintervention, I asked: "Do you feel obligated to expand your department and its budget each year, trying for the maximum amount possible?" His answer was an unequivocal yes.

The department heads in office in 1973 appear to be particularly aggressive in the service of their departments. Many heads (and Secretariat personnel) described the department head in the 1950s and early to mid-1960's as a man who "played the game of loyalty until his retirement." Any number of respondents insisted that their "predecessor never fought for anything," but that the times had changed. Now, as one man put it, "I decided that when I took over I wouldn't play that game. I make the credible case in my requests backed up by the facts. It is hard to argue with facts—they speak for themselves."

**Budgeting Strategies.** Departments possessing present or past five-year plans, Executive Council policy approval, or even working Secretariat approval encounter few obstacles in getting the funds they seek, with virtually no difficulties in fat revenue years. One head noted "that ever since the ______ report was completed, my relations with the Finance Branch have been straightforward." Another noted that once his long-range plan had become official Secretariat policy, his requests received clear sailing.

The absence of medium-term programming in early postwar Hong Kong meant that there were almost no long-run official programs against which departmental submissions could be evaluated; policy and spending decisions were, by default, the province of Finance Branch. Now, however, a greater number of medium-term programs, as in transport policy and education, should facilitate more routine budgeting for related departments. The spending department's most successful strategy, then, is to obtain either Executive Council or Secretariat approval of a long-run plan that suits departmental interests. These parochial interests are not necessarily in conflict with prominent views in the Colonial Secretariat, however; the programs may often enjoy the Financial Secretary's full backing, both for substantive and procedural purposes.
A second strategy used only infrequently is to scream “politics” in a society in which stability is deemed crucial for maintaining confidence. Hong Kong’s record of stable and orderly government is the envy of Asia and is truly remarkable. But the 1967 civil disturbances had an immediate and dramatic effect on the property and securities markets; fortunes were made and lost. Hong Kong’s economy is averse to conditions of instability, and requests for funds can be supported with the claim that they are necessary to insure tranquility—a sort of political blackmail. As one head of department put it: “How do I get what I want? I scream that this particular expense is politically crucial. Though I may sometimes be bluffing, the strategy works, since they are all afraid of politics.”

Another head corroborated this view. Speaking of his department’s responsibilities to the people of Hong Kong, he noted that “we have no ______ problem in Hong Kong, but if I say that, I’ll get no money, and then we will have a ______ problem.”

A third strategy is to use the authority of technical specialist skills in pressing a case. Although Finance Branch insists that all submissions must be written in a clear laymen’s English, bluffing on professional items sometimes brings results. One very specialized professional claimed that he “bluffs the Finance Branch people on professional items, and that one must be firm and take them by the throat.” As he further explained,

It is sometimes necessary to play politics. I was honest the first year and they cut me, though I played some fiddles to get the money reinstated in several other ways. My department now has a block vote in place of the previous system of line item accounting, and this provides greater freedom in spending. Now I regularly pad my requests and play a few fiddles where necessary.

The fourth strategy in successful budgeting is to establish credibility with the Finance Branch. The majority of heads with whom I spoke claimed that their submissions were sincere and realistic estimates of proposed expenditure, not inflated, padded, or fiddled: “My strategy is to establish credibility, hence I only ask for what I can justify.” “It is absolutely vital to justify budget requests carefully to the Financial Secretary.” “We have been generally successful in getting what we want and practice sincere, not inflated, budget-
ing.” “Our budgeting is relatively straightforward.” This set of departmental comments was corroborated by a C division officer in Finance Branch, who noted that “generally, most departments don’t pad their estimates and ask just for what they want. This may be explained by the fact that they can’t fill all their posts anyway.”

Good interpersonal relations promote the establishment of credibility. Hong Kong is a small place. Furthermore, the system of rotating administrative officers insures that Secretariat personnel understand the department’s viewpoint and vice versa. Still, the most important element in successful budgeting is the Exco or Secretariat seal of blessing on the department’s proposed medium-to long-term program. This is, as well, the policy that comports with Hong Kong’s financial regulations.

**Delays: The Departmental Grievance.** No discussion of budgeting in Hong Kong would be complete without reference to departmental “grumbles” of delays, delays, delays. One professional officer explained his frustration with the system in no uncertain terms:

> When I wanted a man for three and a half months to do some __________, they insisted that I put the offer out to tender. Moreover, the Financial Secretary’s staff is overworked and can’t deal with the small items taken separately. “Put them in the estimates,” I’m advised. Therefore I can’t really begin to spend till the following April, and my activities don’t commence till later, since I must recruit as well. Our present system causes inordinate delays.

A director of a Secretariat subunit also recounted his frustrations:

> If I want a file, it takes six days to get to me from the Secretariat. It takes six days to get back, which means that twelve days pass for two minutes’ worth of commenting in a loose minutes file. When the Deputy Colonial Secretary came to visit me, he answered my complaint by noting that it takes two to three days to get a file from the sixth floor of the Secretariat to the fifth floor. Big shots can get a file in twenty minutes by using their personal assistants and cutting through the organization, but then they wonder why we complain about the slowness of government.
Another professional noted that "Finance Branch never says no, they just query and delay. I always get what I want in the end but with much time delay." He explained the financial consequences of delays for his program:

A delay on consideration of my request for a _______ within Finance Branch saw the price rise from $300,000 to $600,000, and possibly $1 million by the time we get around to buying it. Since I'm going to get it anyway, it is strange that they don't seem to mind the extra expense that time delays produce.

One Secretariat official whose responsibilities include helping to unravel delays noted that he "frequently gets phone calls from department heads asking about delays in the proposals they've sent into the Secretariat." The Finance Branch retort is that "delays on budgeting are due to department's always wanting to have the last word, especially on staff requests—they always feel most strongly on submissions for extra staff—and the file never seems to close."

Whose view is correct? An unofficial member of Legco claimed: "I am impartial in the debate as to whether delays are due to obstructions in the Finance Branch or inadequate departmental submissions. A full answer would require a commission of inquiry."

Overinflated Estimating and Underspending

The broad view of public spending appears in Table 13; it is constructed to show the main themes of Hong Kong financial administration. Columns 1 and 2, for example, vividly demonstrate the aggregate character of governmental underspending or aggregate departmental overinflated estimating of expenditure. Until the granting of large supplemental provisions in the early 1970s due to rising costs, expenditure routinely fell short of the approved estimates; however, the enormous budget surpluses of the early 1970s made it possible to fund the supplemental provisions without additional taxation or cutting of future plans. Thus, actual expenditure exceeded the approved estimates for the 1970–71 through 1972–73 fiscal years.
Table 13

A BUDGETARY OVERVIEW, 1956–57 THROUGH 1972–73
(HK$ Million)

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<th>Actual Revenue</th>
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*a Change in format.

*b$500 million transferred to mass transit railway scheme.
Revenues have also been generally underestimated. The caution that inheres in government's estimating practice is vividly borne out in columns 3 and 4, which show that in sixteen of the seventeen fiscal years since 1956–57, revenue outpaced estimates, often by a substantial margin. Fiscal year 1965–66 came short because of a decline in estimated land sales from $191.5 million to $65.5 million. The shortfall was attributable to a temporary saturation of the market for housing, and government deliberately offered less new land for sale that year. As well, the bank run of February through May in 1965 induced a temporary deflation of credit, with a corresponding decline in revenue.

Columns 5, 6, and 7 show spending on public works nonrecurrent, which represents up to one-third of annual expenditure. Actual expenditure exceeded the estimates only in two instances, fiscal years 1965–66 and 1970–71. In all other years, a substantial surplus materialized from public works non-recurrent authorizations. In some postwar years, as seen in columns 7, 8, and 9, underspending on public works non-recurrent almost by itself erased projected budget deficits (especially between 1966 and 1969). Indeed, from the mid-1950s on, underspending on public works may have perennially eased the discomforts of Hong Kong's Financial Secretaries, as projected deficits gave way to surpluses. One might surmise that the Director of Public Works submitted, with the connivance of the Financial Secretary, a deliberately inflated budget. A projected overall budget deficit, induced by public works, in turn affords the Financial Secretary a certain measure of firmness when he warns other departments to hold their requests down lest government confront a large deficit. So often public works underspending—or is it over-inflated estimating?—converted a projected deficit into an actual surplus. Or were both the Financial Secretaries and successive Directors of Public Works puzzled by their annual inability to spend up to the final estimate?

Many Heads of Departments are still unable to differentiate between their commitments and the amount of money they can actually spend. This was particularly the case under Public Works Non-recurrent, where the provision of $107.4 millions was underspent by $26 millions, or just about a quarter.28

Two years later, he reiterated the difficulty:

On the other side of the account, expenditure fell short of the original estimate by just about 5%. But this apparently close estimating conceals a most unwelcome, indeed I might say a very disappointing, saving on one head of expenditure. A sum of $152 millions was provided for Public Works Non-Recurrent; only $118 millions were spent—a shortfall of 22%. A proportion of this shortfall is attributable to overestimating of cost, but there has also been a good deal of overestimating of the amount of work that could be accomplished during the year.29

Cowperthwaite took up the theme of public works non-recurrent underspending during his administration. In his review of the 1963–64 fiscal year, he noted:

There have been extenuating circumstances in that the water emergency has diverted much time and energy; and I would not blame my honourable Friend the Director of Public Works either for this or for any overestimate of expenditure, as he was not responsible either for last year’s estimates or for last year’s weather.30

Next year Cowperthwaite again absolved the Director of Public Works, sympathizing that $30 million of the $63 million which remained unspent on public works was due to many typhoons.31 Late deliveries and June rainstorms were the villains in fiscal year 1966–67.32 And a substantial drop in prices, which the Director of Public Works could not have foreseen, generated an enormous surplus on public works nonrecurrent for 1967–68.33

The following brief statistical evaluation of underspending encompasses the fiscal years from 1963 through 1973. How has each department performed during this analytical decade? We can compare the actual spending with the approved final estimates of the
fiscal decade, and compute the incidence of underspending and overspending that takes place department by department: positive entries in Table 14 indicate underspending; negative entries indicate overspending.

Focus on aviation, for instance. Note that its record is one of chronic underspending. In 1963–64, for example, its budget was underspent by 34.3 percent; its spending objective has consistently not been reached. Indeed, only a few departments consistently overspend their estimates: Immigration, Legal Department, Post Office, Registry of Trade Unions, and Transport. Note also that a large number of negative signs appears for 1968–69, the year that follows the 1967 civil disturbances. This overspending mirrors the first symptoms of rising prices, which have since produced a high volume of supplemental requests in the early 1970s.

Table 14, in large measure, also contributes to column 9 in Table 13. Two-thirds of the time, the tendency to underspend was due to underspending on public works non-recurrent. Underspending has been a fact of financial life in Hong Kong.

The shadows of the budgetary process are now in reasonably clear focus. Historical application of the colonial regulations and the constitutionally centralized position of finance afford clear advantage to the Financial Secretary and his troops. Whether through judicious application of their responsibilities, frequent intimidation of departmental spenders, or sheer neglect on the part of department heads too enervated to fight, the overall picture is one of under­spending by departments and pruning by Finance Branch to elimi­nate overestimating or to insure that a department does not sneak through an unauthorized expenditure. Heads of departments possess few allies, apart from the ineffectual policy branch heads. An effort to alter this general picture of political life is now in process: the McKinsey reorganization of the machinery of government.
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The Reorganization of Government

On 23 May 1973, McKinsey and Company, Inc., of London, a subsidiary of an American management firm, submitted to His Excellency Sir Murray MacLehose a twenty-page report entitled *The Machinery of Government: A New Framework for Expanding Services*. This report was tabled in Legislative Council and is part of the official record. In November 1972 McKinsey and Company had already presented the Hong Kong government with a previous edition of the report; it included a small summary volume, and two large explanatory volumes, the latter containing sixty-eight management-type exhibits. This lengthier report was classified confidential, and hence all citations appearing in this chapter are taken from the official tabled report. Rumors also abound that a preliminary report proposed to convert Finance Branch into a resource operation, reducing its influence in policy making, but these recommendations were quashed on the Financial Secretary’s strenuous objections. As one finance spokesman put it:

> The Financial Secretary cannot, in the peculiar circumstances of Hong Kong, be turned into a mere Treasury man who pays invoices submitted on behalf of Executive Council approved policies. In this economy you cannot divorce the financial implications of any policy from the policy itself, and the Financial Secretary must be in on the determination of all policies. No Financial Secretary could do his job in Hong Kong under any other circumstances.

In reputed response to these objections, paragraph 79 of the official issue of the McKinsey report states that “The responsibilities of the two resource branches, Finance and Establishment, should remain largely as at present.”
The reorganization of government, synonymous with the McKinsey report, is the most significant political event in Hong Kong since the Korean War.

**Purpose of Reorganization**

The stated objective of the McKinsey study of the workings of the Hong Kong government was to determine how current methods of management affected performance and what improvements better meet the demands of the growing and more complex range of government business—to insure that scarce resources, particularly manpower, are deployed as effectively as possible. The consultants, at a cost of some HK$3 million, made a broad survey of all departments, with detailed analyses of Public Works, the Police, and Education, including a thorough investigation of the corresponding Secretariat branches. This phase of the study was completed in November 1972. The second phase, which terminated with the tabling of the official report the following May, consisted of trial implementations.

In the introduction to the report, the consultants identify the perceived problem that necessitated a management reorganization.

4. We found a variety of problems, all of them symptoms of one underlying problem—the Hong Kong Government’s fundamental difficulty of trying to expand services in the face of a continuing decline in the proportion of skilled and experienced staff, and the resulting dilution of their efforts. Our task, therefore, was to identify and recommend ways of improving the machinery of Government so as to increase its capacity to expand the services it provides in spite of these limitations. The only constraint placed on the study was that our eventual proposals must not require changes in the constitutional position—for example, in the roles and responsibilities of Executive and Legislative Councils.

The constraint is absolutely crucial. Any alterations proposed in the interests of improving policymaking in Hong Kong must accommodate Executive Council’s preeminence.
The ostensible motive, then, is to improve the efficiency of government in the face of declining numbers of high-quality administrators, a problem exacerbated by the steady postwar growth of government services. Is improved efficiency the major motive of governmental reorganization? Or even a serious motive? Here is a cross-section of remarks from the various interviews I completed:

"The McKinsey study is intended to assault the Financial Secretary head on."
"We know why the McKinsey report was done and for what purpose. Contrary to their findings, the Finance Branch is not overworked and McKinsey's efficiency-oriented reorganization has already expanded, not contracted, the Secretariat and may perhaps even increase our work load."
"The entire new system of program budgeting may break the Finance Branch stranglehold over the Secretariat as the line item system of approval gives way to overall program budgeting."
"The way to crack Finance Branch is to get control of the personal emoluments subhead—45 percent of the budget—by having the freedom to treat it as one block vote and assign people accordingly within those broader parameters."
"I sometimes wonder whether the reorganization is only to raise the salary of Secretariat staff."
"McKinsey was just to raise a few salaries—it makes no appreciable difference."
"Reorganization really makes no difference."
"The original McKinsey report reduced the Financial Secretary to the job of treasurer. Philip said no. The second report thus left Finance Branch as it was under the old system."

This set of remarks is replete with political overtones. Many persons both in and outside government see reorganization as a device to weaken the power of Finance Branch in policy and spending decisions. If this view is correct, how does reorganization intend that objective as publicly it seeks to improve efficiency in government? The answer is found in the restructuring of the Secretariat.

Mechanics of Reorganization

The McKinsey recommendations encompass four broad efforts: (1) strengthening existing machinery; (2) introducing new machine-
ry; (3) improving personnel management; and (4) changing the organization of central government.

**Strengthening Existing Machinery**

Three proposed changes are envisaged to produce the most considerable range of benefits: standardizing submissions, delegating authority further, and extending the application of computers. When departments wish to change government policy, or when they need more resources, they send a submission to the Secretariat describing and justifying their proposal. For a variety of reasons, Finance Branch has often found these submissions incomplete, and time and effort have been wasted resolving the difficulties. In conjunction with Finance Branch personnel, the consultants prepared checklists to remove the problem.

The checklists are intended to guarantee complete proposals on first submission and thus to save time; they should, as well, strengthen departments in their consultations with Finance Branch. Departments now possess a Finance Branch officially certified checklist of particulars that makes up a complete and adequate submission. Finance Branch should no longer be able to delay action on the grounds of incomplete submissions.

The issue of delegated authority is not so straightforward. McKinsey and Company almost acknowledges the irrelevance of "unofficials" in Hong Kong’s governmental framework. On this account, paragraph 18 of the report is most revealing.

18. *Delegate authority further.* The resolutions of Legislative Council and its committees require all decision-making powers to remain highly centralized. For example, all new posts must be examined by Establishment Sub-Committee and approved by Finance Committee. With the growth of the Colony, and the corresponding growth in Government services, the volume of decisions has now reached such proportions that the various committees can afford time to examine in depth only the really major items. Thus, in practice, substantial decision-making powers are delegated to the staff servicing the committees; what is more, these staff have extensive negative decision powers, since it is they who decide which items are to be put forward for debate and decision by the committees.
McKinsey recommends that senior Secretariat staff be relieved of some of their administrative load and that, to relieve the overwork, authority be further delegated to the departments. Are Finance Branch personnel overworked? One spokesman replied with a forceful "nonsense!" Indeed, I could not find a single Finance Branch officer who confessed to being overworked.

The third recommendation for strengthening existing machinery is to greatly extend the application of computers. This would permit computerized billing on, say, the waterworks, facilitate cost-control accounts on department spending, and speed up skilled design work in public works.

To achieve these aims, the consultants suggest that the Deputy Colonial Secretary be provided with management support. A new P.A.C.S. post has been created to oversee the implementation of the agreed recommendations in the report and, in the long term, to identify and implement further improvement opportunities.

*Introducing New Machinery*

The present machinery, according to McKinsey, does not permit departments to take many decisions, since it provides few means of ensuring that any delegated decision powers are properly exercised other than by individually checking each decision. This results in central decision taking of a large number of relatively unimportant decisions, such as buying a calculating machine. To free top-level Secretariat staff to devote their full attention to the major issues facing government, McKinsey recommends that departments be delegated responsibility for the operational or executive types of decision that make up the major part of government activity; the more important policy-making decisions are to be retained as a central responsibility. To delegate without diluting central authority is the task of four specific recommendations.

First, the concept of long-term plans is to be extended across the whole of government activity. Such plans relate program objectives to estimates of available resources and ensure that the timing and objectives within a program are properly coordinated and balanced. The absence of comprehensive long-term plans is a notable feature
of postwar Hong Kong; both Colonial and Financial Secretaries have noted the difficulty of planning and forecasting future needs and shifting priorities in Hong Kong's dynamically changing environment.

Secondly, it is proposed that the cost effectiveness of government could be improved by relating expenditure to results. Instead of considering expenditure by such categories as staff, vehicles, buildings, and so on, government should consider expenditure by results, for example, cost per patient treated. Although the annual estimates provide the necessary mechanism for controlling government expenditure, they do not provide a means of controlling implementation. Cost-control effectiveness thus requires program plans to determine the optimum balance between departments and the development of a computerized, activity-based accounting system. It is also noted that pressure from the top is needed to motivate staff to realize opportunities for improving the cost-effectiveness of operations.

The third and fourth recommendations to introduce new machinery include the development of formal resource plans that systematically identify the requirements for key resources across the whole of government, and how to obtain and distribute them, along with improved monitoring and control of implementation. The major effort of this set of suggestions, though, is the emphasis upon long-term planning.

*Improving Personnel Management*

The recommendations for meeting the manpower requirements of Hong Kong's ever-expanding government services are relatively straightforward: open senior administrative jobs to all grades (for example, allow professional officers to take Secretariat top-level jobs restricted before to the administrative grade); base promotions on merit rather than on length of service; set up a government recruiting office in London to reduce the lead time for recruitment; and increase the tenure in many key positions to permit greater expertise.
Changing the Organization of Central Government

We now arrive at the heart of the McKinsey reorganization. The mechanics of reorganization are part and parcel of a restructuring of political power within the Secretariat, the core of a very centralized system of government. McKinsey notes that three specific problems must be overcome if the full benefit of their recommendations is to be realized.

First, the diffusion of responsibility for programs must give way to coordinated action. At present, no single policy branch in the Secretariat is concerned with all the activities relating to one program; it is only at the Colonial Secretary and Financial Secretary levels that there is clear responsibility for overall program results. To achieve the desired coordination of departments involved in any one program thus requires frequent meetings between large numbers of senior staff. Overall planning is also missing for the government’s major programs.

The second problem to be overcome is to reduce the large span of control of the Colonial and Financial Secretaries, who jointly coordinate the policies and activities of over forty heads of departments. Too many issues, some distinctly unimportant, go to the few top men in government.

The third, and without question most important, problem in the present arrangement is the lack of balance between policy and resource branches. The policy branches and departments should see priorities within their fields and judiciously apply limited resources. The resource branches (finance and establishment) should be primarily responsible for raising these resources, assessing resource limits, and insuring value for money. McKinsey notes that the present machinery does not clearly distinguish between the respective responsibilities of the policy and resource branches, which often leads to an unnecessary conflict of views between them. The authors of the report judiciously write (page 15) that “Time is wasted and frequently the machinery is made to work only by Finance Branch having to undertake tasks that should properly have been completed by other branches.”

To overcome these defects, the report recommends the creation of six new Secretariat branches, which will, in effect, replace the old
policy branches. These new branches are conceived to work directly with all the departments contributing to each program area, and to take a greater responsibility for policy formulation. The six new branches which have been set up are as follows:

a. Economic, responsible for policy and programmes covering the commercial and industrial field, monetary and foreign exchange, banking, securities and stock exchanges, primary products, public utilities such as electricity, gas and telephones, mass transit, shipping, transport franchises and external aspects of civil aviation.

b. Environment, responsible for policy and programmes covering land matters, colony planning, the design, construction and timing of new towns, pollution, urban services, roads, road transport, traffic, railway, car parking, mass transit, and operational and works aspects of the airport and harbour.

c. Home Affairs, responsible for policy and programmes covering information services, public relations, broadcasting, television, information on public attitudes, cultural activities, tourism, City District Officers, and residual New Territories affairs.

d. Housing, responsible for policy and programmes covering housing, resettlement, flatted factories, rent control, and coordination of departmental services—e.g., education, health, law and order—in new towns.

e. Security, responsible for policy and programmes covering external security, emergencies, internal law and order, immigration, prisons, narcotics, and fire services.

f. Social Services, responsible for policy and programmes covering education, medical and health services, social welfare, charities, labour and recreation.¹

As stated before, the responsibilities of finance and establishment are to remain unchanged; this concession to finance nearly vitiates the political impact of reorganization. The centralized system of finance still in effect accords final approval on almost every submission to Finance Branch.

McKinsey recommends that the level of the principal branch head posts be raised to that of a new Secretary status, a level about on par with the Deputy Colonial Secretary and the Deputy Financial Secretary; unlike in the past, department heads will no longer outrank branch heads. The new regrading not only presumably insures the
status necessary to achieve overall policy coordination across a number of departments, but it also gives the branch head more clout and stature in his discussions with finance.

If the administrative workload of the few top men must be reduced to permit them to concentrate on important issues, then it is crucial that the new secretaries—or “overlords”—possess policy-making authority for programs under their jurisdiction. Recall, however, that the policy-making authority of government resides in the Governor and his Executive Council. The one constraint placed on the McKinsey study was that its eventual proposals not require changes in the constitutional position of the roles and responsibilities of the Executive and Legislative Councils. One outspoken critic of the report claimed that this constraint effectively vitiated the effort to restore the imbalance between finance and the policy branches:

McKinsey did not look at the Hong Kong constitution, particularly the role of Executive Council. Since the new supersecretaries will not sit in Executive Council, they cannot be in on the infighting on policy matters. Moreover, the competence of the man is what is important, not his official position. If the department head is not able to mount a good case, the supersecretaries will not be able to carry the day against the Financial Secretary.

Both the Colonial and Financial Secretaries are members of all Executive Council proceedings; the six program-oriented secretaries are not, though they may be called in as experts. Although they can surely prepare Executive Council papers, they do not share the Financial Secretary’s opportunity to argue the case before the constitutional policy-making body of Executive Councillors.

Preliminary Efforts at Implementation

On 29 November 1973 the South China Morning Post noted that the government had asked for tenders to build an extra floor onto the main wing of the central government offices, to provide additional accommodation for staff in the Colonial Secretariat. The column acknowledged the recent shortage of space and claimed that “one of
the causes has been the adoption of the McKinsey recommendations on Government organisation." It is curious that a set of proposals to increase efficiency and make better use of existing personnel first requires substantial expansion in Secretariat facilities and personnel.

One phase of the recommendations, the standard checklist governing financial submissions, was almost immediately put in effect. Its objective is to speed up administrative action and reduce delays attributable to incomplete or inadequate submissions. Has this goal been attained during McKinsey's first year of implementation?

A director of a Secretariat subunit described his experience with the new checklist. I asked if they had sped up Secretariat approval.

My submission for a junior clerk was the first McKinsey-type submission sent to the Secretariat. It was considered exemplary and has been shown around as a model submission for others to imitate. Nonetheless it still took five months from the date of my submission to get approval from the Establishment Subcommittee of Finance Committee. So much for the McKinsey report.

One outspoken professional head was equally disgruntled.

I have to pound the desk to find out where my submission is, as it is being shuffled from one location to another. The new system is no improvement—just more people to pass it around.

The key man is the Deputy Financial Secretary. If you can get to him, things are all right. The problem is that you have to deal with all these little clerks on the way up and it takes time. The McKinsey reorganization now means that I have to deal with six people instead of one, some of whom know nothing about my business. The McKinsey people decided that the main problem was an overworked Colonial Secretary. So they created six new posts to take the burden off the wrong man.

Finally, one department head (who subsequently moved into the Secretariat) noted, in speaking of his departmental job after reorganization, that "the McKinsey reorganization has made my job more difficult. In my present position I am too far removed from the
big jobs. I’ll be even further removed from the overlords than I was from the policy branch heads.”

It is, of course, much too early to prejudge the eventual outcome of the reorganization, either in terms of the stated goal of increasing government efficiency or the implicit goal of redressing the balance of power within the Secretariat. It is not too early, though, to assess the perspectives of the participants: the departments, the secretaries, and finance.

Pros and Cons of Reorganization

If the implicit political objective of reorganization is to achieve greater balance in the Secretariat, professional departments should be enthusiastic, supersecretaries should be optimistic, and Finance Branch should be critical. The results are as predicted.

One professional head of department was unreservedly enthusiastic.

I have undertaken my work as if the new governmental reorganization were in effect even though it was not yet fully implemented. I worked out my long-range policy in depth with my secretary, and this program for expansion is now already official Secretariat policy. It remains to be seen whether finance acts as a service branch of government in its costing and allocating duties, or whether it still tries to retain a policy role.

Another professional head shared this projected optimism.

Under the new system, my department is one of several whose planning activities are to be coordinated by the new Secretary for the Environment, in this case a technical man. Instead of having to fight a lonely battle with the Secretariat, and in the process perhaps be put down by a competitive department, the secretary will help in the fight with Finance and Economic Branch. The new system will be a great improvement if the secretary is a professional man, but if he is an administrative layman, then there will be no improvement.

Indeed, one of the new supersecretaries noted that reorganization provided much improved coordination in government: “I can now
speak with the authority of the Secretariat, instead of just a depart­ment head. One cannot put together a complex program as easily from the latter position.

Another supersecretary praised the report as far as it went, but criticized it for not going far enough. "The McKinsey report didn’t go far enough. It may in fact strengthen the Financial Secretary in the next few years. The real question is how much the Finance Branch is prepared to delegate authority." He noted that during the 1960s three efforts at government reorganization were carried out with no effect and that the Governor was wise in seeking outside expertise. Another Secretariat officer noted that "there is some strain at present due to reorganization. But some friction is a good thing—it keeps life from getting too dull."

The objections were voiced much more emphatically than the praise. One former Cowperthwaitian subordinate minced no words:

My comments on the McKinsey report are almost imprintable. It removes policy-making from the departments where policy-making belongs. The new secretaries are further removed from the depart­ments where the day-to-day business of running the government takes place. It was deliberate policy to have the department head be a rank or two above the PACS in charge of a policy branch so he could feel as if he could go over the man's head direct to the Colonial Secretary or Financial Secretary if need be. One new secretary remarked that he will have to be extensively briefed on ________, as he knows little of it. Yet another layer has been interspersed between the department head and the finance people. This should tend to make the head more irresponsible in that he can let the secretary make policy and recommend budget items for policy implementation.

During their consultations, the Secretariat staff told the McKinsey people that they didn’t make policy, neglecting to point out that policy-making belongs in the departments. Therefore, McKinsey got the wrong idea and proposed a centralized determination of policy, removed from the nitty-gritty world of government administration.

This view is generally shared across Finance Branch. Another spokesman used equally invective language.

Reorganization? It was done in a generally underhanded way. They came out here talking and never bothered to listen. Besides, it won’t
make any difference whatsoever. Creating new posts and changing people around to fill them won’t alter personality or the competence of the individuals involved.

One of the unofficial members of Legislative Council viewed with skepticism the potential benefits stemming from the report’s recommendations.

Reorganization? ______ was offered the job of secretary for ______ but he didn’t want it, so they offered it to _______, who may be inadequate to administer that job. It also pulls talented people out of the top executive jobs in which they are highly qualified to do the task of department administration. It then puts less qualified men into those executive jobs by virtue of promoting department heads into Secretariat policy positions. Furthermore, all green and white papers are still worked out by advisory boards attached to the various department, not by these new policy coordinating secretaries.

And another of the unofficals felt that “the Financial Secretary will be a superoverlord. Since these matters are monetary in the last resort, he must balance resources and priorities.”

The views on each side are as clearly demarcated as the issues. The ultimate, or at least near-term, outcome remains to be seen.

Implications

The reputed rejection of a first McKinsey report vitiated much of the political impact of the second, and finally accepted, official version. As long as the responsibilities of Finance Branch “remain largely as at present,” the Financial Secretary remains the kingpin in the determination of the annual budget. His influence also remains paramount in the general realm of policy making since, in the conditions of Hong Kong, it is difficult to divorce the financial implications of any policy from the policy itself. Moreover, it is generally recognized that Finance Branch personnel are one or more grades above the departments and the policy branch staff in competence. For example, many consider Cowperthwaite to be the finest intellect in governmental service throughout the 1960s, and, without question, Haddon-Cave the most competent civil servant in the
1970s. Shifting the present people around to staff new posts alters neither their personality nor competence.

The reorganization of the machinery of central government has been accompanied by two other, non-McKinsey, committees. The first of these is known as the Colonial Secretary’s Committee of Secretaries. This committee typically holds a Thursday morning meeting, which has replaced the former weekly meeting between the Deputy Colonial Secretary and the old Secretariat branch heads. The committee’s membership includes the Colonial Secretary, who acts as chairman, the Deputy Colonial Secretary, the Financial Secretary (who rarely attends) or his immediate deputy, the six super secretaries, and the Secretary for the Civil Service. This body might best be characterized as an unofficial committee of officials. On very important occasions, the Governor chairs the weekly meeting. Perhaps the establishment of this committee, unofficial though it may be, is to introduce a system of corporate decision making—to eliminate the alleged factionalism and bickering in government. Presumably disagreements among the six policy secretaries and the Financial Secretary can be more readily ironed out in this weekly session.

The second of these committees is known as the Governor’s Committee, an extension of a committee that has existed for many years. It usually meets on Friday, but not necessarily on a weekly basis. The Governor’s Committee is much broader in representation than that of the Colonial Secretary, pulling in leading heads of departments and members of the community who do not necessarily hold high office. Twenty or more of these committee members may attend any given session. This committee is also another instance of the introduction of physically corporate decision making into the administration of Hong Kong. As one member of the administration remarked of the change:

I think under Sir John Cowperthwaite, clearly a brilliant man, that Finance Branch kept too close to paper. It is sometimes better to come out in the open and discuss some of these matters. People do have uneven speaking and writing abilities.

The shift toward physically corporate decision making may or may not end the alleged factionalism and bickering within govern-
ment; it may, however, consistently put the Financial Secretary in the position of being a minority of one. One Finance Branch staff member evaluated the two committees pretty much in this light:

Generally, the Deputy Financial Secretary sits in on the Colonial Secretary’s weekly meeting. The Financial Secretary avoids it so as not to be part of a corporate official line and constantly be on the short end of a nine to one vote, thereby subsumed under an official majority line. This way he can still fight things in the Governor’s broader committee.

Recall, also, that the six new branch Secretaries cannot be in on Executive Council infighting, thus affording the Financial Secretary at least three separate occasions in which he can voice serious protest. He can, as well, become recalcitrant throughout the annual estimates season. One sympathetic officer played out a scenario that he believed might transpire and offered his interpretation of the differences between Cowperthwaite and Haddon-Cave:

Sir John’s style was to attack the estimates in a thousand ways; find flaws; chip away. By the end, expenditure will not exceed revenue. Philip is different. He’s going to tell them he hasn’t got the money and let the supersecretaries fight among themselves to divide a limited pie, rather than have them all gang up against him to increase the pie. Although each of them agree that the Financial Secretary is competent and the most important man for the good of Hong Kong, they let their own personal drive for advancement take them into a power struggle to get what they can from the Financial Secretary for their own empires.

The 1974–75 budget is Hong Kong’s first austerity budget since the deficit and subsequent tax rise in 1965–66. Indeed, the 1974–75 fiscal year ended with a deficit of about HK$410 million, due, in part, to a large salary increase for the civil service. Hong Kong’s fiscal reserves were tapped to meet this deficit. The Financial Secretary instructed his staff, during the preparation of the 1974–75 draft estimates, to trim an additional $200 million off the total submissions; he simultaneously threatened a reevaluation of Hong Kong’s entire tax structure, with a possible rise in the direct rate. Portions of the next ten-year projected development in roads, engineering, and
Reorganization of Government

housing have already been rephased for later spending. The oil crisis, worldwide inflation, slowing growth in revenues, and an increasing balance of expenditures with revenues have all strengthened the Financial Secretary’s reins: he can, as admitted, hold a tighter rein in times of scarcity and tightness.

Hong Kong’s exposed and dependent economy, the constitutional preeminence of the Financial Secretary, and the persistence of a value-for-money ethic of financial administration should offset the implicit political objectives of the McKinsey reorganization. I have previously argued that not even Hong Kong will escape increased regulation and growth in welfare-oriented policies, although financial stringency will produce a temporary abatement of these trends. But short of some exogenous change beyond Hong Kong’s power to control, the colony will, in all likelihood, remain the world’s lowest-taxed, least-regulated, most fiscally responsible government—an exemplary state of affairs. The only visible cause for alarm stems from the Financial Secretary’s 1975 budget address. Despite reductions in some government spending programs and selected taxation measures, the Financial Secretary has still officially budgeted a substantial deficit for the 1975–76 fiscal year, of which more than HK$400 million is to be covered by borrowing. This is, hopefully, only a temporary measure that will revert to the practice of balanced budgets when world economic conditions improve. Only time will tell.
Notes

1: A Portrait of Responsibility


2. The description and statistics on Hong Kong are based on material found in the Hong Kong Annual Report (published annually by the Government Printer since 1946), which summarizes the year’s developments in Hong Kong (with statistical documentation where available).


2: The Development of Financial Procedure

1. G. B. Endacott, Government and People in Hong Kong (Hong Kong: Hong Kong University Press, 1964), p. 15. The first section of Chapter 2 is condensed from Endacott’s book.

2. Ibid., p. 20.

3. Ibid., p. 42.

4. Ibid., p. 50.


3: Constitutional and Administrative Framework

1. For a thorough, but perhaps unduly biased, treatment of the constitutional basis of Hong Kong government, see John Rear, "The Law of the Constitution," in Keith Hopkins, ed., Hong Kong: The Industrial Colony (Hong Kong: Oxford University Press, 1971), pp. 339-415. For the full extent of Rear's bias, see his other essay, "One Brand of Politics," in the same volume.

2. (Hong Kong: Government Printer, 1972).


4. Quoted in Endacott, pp. 85-86.


7. Ibid., 1971-72, p. 10.


9. The absence of an annual report from the Secretariat makes the task of analyzing these branches particularly vexing, but one can use Secretariat memoranda to reconstruct a formal account. Especially useful is the "Organization of the Colonial Secretariat," which is periodically revised and updated. The one on which the following prereorganization discussion is based is dated 9 January 1973, several years after Cowperthwaite's retirement.


13. The structure of the postwar civil service is taken, in some instances directly, from several establishment papers, the most recent one in my possession being the January 1973 issue of "The Administrative Class in Hong Kong."


15. I have omitted the salary structures of the administrative grade in this section. They are not, to my mind, an important variable in understanding either administration or budgeting in Hong Kong.

16. These figures are taken from the *Staff List* of the Hong Kong Government (1972).

4: Economic and Budgetary Policy


2. The Financial Secretary, *Hong Kong Hansard 1955*, p. 61.


5. Ibid., 1960, p. 124.

6. Public services were generally supplied by government before World War II on a very limited basis to the permanently resident population, which included the majority of Europeans and only a small section of the Chinese community, most of whom were viewed as transients awaiting the opportunity to return to the mainland. After the war, the Chinese were regarded as permanent residents and the system of public services thus required drastic extension.

7. *Hong Kong Hansard 1962*, p. 57. Cowperthwaite’s remarks should be viewed as an effort to eliminate the privileges that applied to the affluent residents on the prewar system.

8. Ibid., 1961, p. 52.


10. Ibid., p. 135.

11. Ibid., 1965, p. 77.
12. Ibid., 1964, p. 52.
13. Ibid., 1966, pp. 72–73.
15. Ibid., 1971, p. 419.
17. Hong Kong Hansard 1964, p. 47.
19. Ibid.
22. Ibid., 1964, pp. 50–51.
23. Ibid., 1965, pp. 68–73.
25. Ibid., p. 537.
27. Ibid., p. 60.
30. Ibid., 1962, p. 55.
31. Ibid., 1966, p. 70.
32. Ibid., pp. 74–75.
33. Ibid., p. 76.
34. Ibid., 1968, p. 206. For a restatement of this same point, see also Hong Kong Hansard 1969, p. 204.
35. Speech moving the Second Reading of the Appropriation Bill, 1974, p. 41. (mimeo)
36. Hong Kong Hansard 1963, p. 47.
37. Ibid., 1966, pp. 216, 218. See also Hong Kong Hansard 1962, p. 133.
38. Ibid., 1968, p. 68.
40. Ibid., 1963, p. 50.
41. Ibid., 1955, p. 52.
42. Ibid., 1957, p. 31.
43. Ibid., p. 115.
44. Ibid., 1960, p. 49.
45. Speech moving the Second Reading of the Appropriation Bill, 1974, p. 39. (mimeo)
46. Debate on the reserves reached a new peak in the summer of 1974. Acting Financial Secretary, David Jordan, addressed the Rotary Club of Kowloon North on 24 May 1974 on the topic of “Why We Should Leave Our Reserves Alone.” This was followed by a speech by Philip Haddon-Cave at the annual dinner of the Hong Kong Society of Accountants on 19 July 1974, during which he warned that the reserves should not be misused. See South China Morning Post, 30 May 1974, p. 2; and 20 July 1974, Business News, p. 2. These debates invariably emerge whenever the sterling exchange rates decline or appear likely to decline. The authorities are almost always compelled to insist that Hong Kong is free to spend the reserves as it thinks best, in denial of the charge that these reserves somehow or other represent the United Kingdom’s profits from colonial rule.
47. Hong Kong Hansard 1955, p. 59.
48. Ibid., 1962, p. 126. Also see the Hong Kong Hansard 1969, p. 208.
49. Ibid., 1971, p. 421.
50. Ibid., 1955, p. 57.
51. Ibid., 1957, p. 35.
52. Ibid., p. 41.
53. Ibid., 1959, p. 33.
54. Ibid., 1960, p. 54.
55. Ibid., 1961, p. 58.
56. Ibid., 1963, p. 34.
60. Ibid., 1955, p. 51.
61. Ibid., 1964, p. 53.
62. Ibid., 1946, p. 73.
63. Ibid., 1958, p. 64.
5: The Budget

4. Incrementalism is a central theme in the scholarly literature on the budgetary process. See Aaron Wildavsky, Politics of the Budgetary Process (Boston: Little, Brown, 1964).
5. The Financial Secretary, Hong Kong Hansard 1964, p. 46.
6. Ibid., 1965, pp. 74–75.
8. Ibid., p. 68.
10. Ibid., 1964, p. 97.
11. Ibid., 1955, p. 58.
15. Speech when moving the Second Reading of the Appropriation Bill, 28 February 1973, p. 3 (mimeo).
17. Ibid., p. 16.
18. Ibid., p. 21.
20. Ibid., p. 43.
22. Hong Kong Hansard 1968, p. 58.
28. Ibid., 1957, p. 31.
29. Ibid., 1959, p. 33.
30. Ibid., 1964, p. 42.
31. Ibid., 1965, p. 61.
32. Ibid., 1967, p. 81.
33. Ibid., 1968, p. 54.

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