

Time to Count the Social Cost of a Divided People United

Public housing should be sold to tenants at well below market prices with no restrictions on transfers or capital gains, according to Hong Kong Centre for Economic Research director Professor Richard Wong Yue-chim.

Mr. Wong said his support of a long-standing plan to sell the existing stock of public housing to sitting tenants would help fight inflation by providing up to one-third of Hong Kong residents with an effective hedge.

His comments are part of our weekly series looking at Hong Kong's prospects leading up to and after the handover.

Y.C. Richard Wong, professor of economics and acting director of the School of Business at the University of Hong Kong, shares his views as part of our weekly series on the prospects for Hong Kong up to and after the change in sovereignty.

- Hong Kong Centre for Economic Research director Professor Richard Wong says the territory's inflationary housing issue has divided it into "haves" and "have-nots".
- The sight of children and mothers torn from their loved ones and forcibly repatriated back to the mainland is a familiar one. They, too, remind us that civil liberties are not limited to politics.
- Families in Hong Kong have little choice but to buy property as a means to protect their savings, thereby further fuelling property prices in a market already suffering from severe shortages.

Professor Richard Wong Yue-chim is chair of economics and acting director of the School of Business at the University of Hong Kong. He is also founding director of the Hong Kong Centre for Economic Research, which is currently co-ordinating a 30-volume economic policy studies project of the Hong Kong economy. He is co-author of *The Fifth Dragon: The Emergence of the Pearl River Delta* (Addison-Wesley, 1995) and *Port Facilities and Container Handling Services* (City University Press of Hong Kong, 1997).

The world's interest in Hong Kong in the months ahead will be focused on the political transition that will take place. As Hong Kong comes under the political microscope, every event and act will be scrutinised for clues as to whether the promise of "one country, two systems" will be honoured and, indeed, survive the 50 years it has been guaranteed by the Joint Declaration and enshrined in the Basic Law. By any yardstick, 1997 will be a significant year for the future of both Hong Kong and China. However, it was the economic and social forces unleashed in 1979 in China's open door policy and Hong Kong's response to them that may ultimately determine our fate.

The momentous impact of China's opening to Hong Kong is highly visible. Within a span of 18 months between 1980 and 1981, some 400,000 individuals crossed the border into Hong Kong. The impact on labour market conditions was swift. Real wages failed to grow for several years, but Hong Kong's labour-intensive manufacturing industries received a new lease on life as competitiveness was restored with the injection of a new army of workers.

Nevertheless, the sudden influx quickly led to an agreement between Chinese and Hong Kong authorities to regulate and limit the flow to 75 individuals per day as a result of public concern over its consequences on labour markets, social-educational, housing, health, and infrastructure services. Although the number has been increased to 150 over time, illegal flows continue to be a permanent problem.

The fear of population inflows from the mainland continues to be a cause of anxiety to many local residents. However, there is a clear difference in the attitudes of capital and labour towards such inflows. The fact that everyone in Hong Kong must carry an official identity card at all times and police are empowered to check them in public is a constant reminder to all that political factors are not the only ones threatening civil liberties.

The opening of China began to have an even more perceptible impact on the economy as our manufacturing base migrated northwards across the border. At its peak, our manufacturing enterprises employed some 900,000 workers in Hong Kong. Today they reportedly employ as many as six million workers on the mainland, with less than 250,000 in Hong Kong.

These changes have important social dimensions that have had an enormous impact on the lives of individuals and families in Hong Kong. As many as 500,000 workers have had to seek new jobs in service industries as manufacturing jobs were lost in mid-life. Organised labour in Hong Kong has since found an enduring agenda in free market - hostility to labour inflows - an alien concept throughout the history of Hong Kong, where most inhabitants before the war were sojourners and those after the war are first or second-generation immigrants.

Today, hundreds of thousands of individuals in our workforce commute regularly across the border to work on the mainland and millions from Hong Kong enter China every year for short visits. As social and economic contacts continue to grow between the two, a rising number of marriages are now taking place between Hong Kong and mainland residents.

The presence of draconian laws to limit the flow of individuals from China into Hong Kong has created a heart-wrenching phenomenon. An increasing number of families now have members who are forced to live apart for years, separated by a border. The sight of children and mothers torn from their loved ones and forcibly repatriated back to the mainland is a familiar one on television. They, too, remind us that civil liberties are not limited to politics.

The human cost is immense today. Tomorrow it will be even more staggering as numbers and the prolonged agony of those waiting to be united keeps growing. It is inconceivable how people living in two economies and societies so close to each other with such intense contact will fail to develop such ties and relations.

Divided families lead eventually to a society of alienated individuals, fostering social divisiveness. The day of reckoning for Hong Kong will arrive when the social pressures of a distorted family life, a lonely and isolated childhood, maladjusted youth and lasting memories of despair, humiliation, anxiety and unfulfilled promises finally erupt in full force. Hong Kong will pay dearly for its current policies to regulate and limit population inflows.

I cannot imagine how any amount of social welfare spending can heal the scars from these self-inflicted wounds. And if society erupts, the civil liberties and economic freedoms that are so dear to Hong Kong will fall by the wayside to be eclipsed by a culture of authoritarianism, paternalism, and social welfarism.

If these views appear to be alarmist, it is useful to remind ourselves that not too long ago we witnessed a sort of pre-staging that took the form of the “great society” undertakings of former governor, now Lord, Murray MacLehose, who took charge of Hong Kong in 1971 in the wake of the civil disturbances of 1967-68. Even if society does not erupt dramatically with deft management, the drift towards the “great society” will be difficult to resist.

In contrast to these worrying social forces that have been released by the opening of China, the economic impact on Hong Kong is far more positive. The enormous complementarities between the mainland and Hong Kong have created numerous opportunities for economic cooperation to the benefit of both Hong Kong and the mainland. These developments are so well known to the people of Hong Kong that any further elaboration here would add little value.

Nevertheless, the huge economic strides made by Hong Kong have a price. Inflation is now a permanent feature of an economy that is always operating at full capacity, even during cyclical downturns. The capacity constraint is to a large measure a result of the policy to regulate and limit the inflow of population and labour from the mainland.

The damaging effects of inflation are most serious in its impact on savings. Families in Hong Kong have little choice but to buy property as a means to protect their savings, thereby further fuelling property prices in a market already suffering from severe shortages. Property ownership today divides society into the “haves” and

“have-nots”; and the gulf that separates them appears to be ever widening. This too is socially divisive.

Fortunately for Hong Kong, there is a choice that could take us a long way towards alleviating these social pressures. I have long supported a plan to sell the existing stock of public housing to sitting tenants as a solution to many problems. The sales must take place at prices well below market levels and tenants must be allowed to have the right to transfer the unit on the free market and to keep any capital gains that arise from the sale.

Today, this proposal is even more relevant and urgent. With more than a third of our households living in public housing, privatisation would provide them with a genuine asset that could be an effective hedge against inflation. The asset could be used as collateral for financing business activities, as an annuity to provide for old age retirement or as a bequest to loved ones. At one stroke and at almost no cost to society, the inseparable gulf between the “haves” and “have-nots” would be largely eliminated.

As Hong Kong becomes a predominantly propertied society, the hostility of local residents toward immigrants will be greatly reduced. The arrival of immigrants will be perceived to enhance property and capital values, and not to depress wages and take away jobs.

I believe our Government should announce a clear, credible policy to allow spouses and children to arrive in Hong Kong after July 1 anytime they wish. It need not trigger an immediate rush into Hong Kong. Most parents are, after all, responsible individuals who will not send for their dependents until arrangements for settling them in Hong Kong have been made.

In the longer run, such a policy would also enhance the attractiveness of local residents as marriage partners for mainlanders, while Hong Kong would be able to attract better quality immigrants through marriage. Indeed Hong Kong has much to gain from a long-term policy to re-unite separated families.

If these proposals sound incredible, then it is only because too many of us are overwhelmed by the idea our public housing, public education, public health care and public welfare services will be stretched to their limits in the short run. It is useful to refresh our memories to the time 400,000 individuals crossed the border into Hong Kong over an 18-month period in 1980-81. The economy and society adapted very well to that sudden shock. Similar episodes have existed throughout the post-war period in Hong Kong’s history and we have always handled it well - even when the resources that were at our disposal appeared meagre by current standards.

Perhaps the real problem lies with the way in which we view our public housing, public education, public health care and public welfare services. It is a mistake to believe that individual problems are always and everywhere a public responsibility. This is a false premise that Hong Kong must shake off if we are not to be overwhelmed by the challenges of managing population and labour inflow. For

otherwise, we will be permanently condemned to holding the floodgates to a raging torrent.

Our puny efforts to devise interim solutions to control the inflow will eventually corrode the foundations of our free economy and open society. In the final analysis, they will also be futile, inhumane and self-defeating. We should, on the contrary, make provision for Hong Kong to develop as a metropolis with a population that is much larger than is currently contemplated in official forecasts. And as we privatise our public housing units to help our residents become a propertied class, we shall soon be gladly bidding welcome to all those who have a legitimate and humanitarian claim to be here.