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The Mayor of London

Dear Mayor Khan,

Hong Kong has shown the way how the people of the UK and our great cities can be better governed.

<http://www.scmp.com/news/hong-kong/politics/article/2135011/money-money-money-hong-kongs-finance-chief-paul-chan> Wednesday 28th February 2018

Hong Kong provides the best model in the world for clues on how to redesign the fiscal system in ways that would both empower government to fulfill its obligations, and to liberate people from the constraints that induce poverty and homelessness. The key feature of HK's financial system was the innovation by the original British administration in the 1840s. Under instruction from the Foreign Office, the rents of the colony were to be reserved and invested in the infrastructure and social services. The Hong Kong administration could not sell land that was leased from China so they rented it to all users. This policy of stewardship of the land has been preserved since HK reverted to China.

(1) **The Hong Kong budget.** The link provides the evidence that a city jurisdiction with no natural endowments apart from a deep-water harbour can both

- a. produce HK\$138bn (£12bn) surplus, reduce taxes and
- b. fund some of the best infrastructure in the world, thanks to the fact that it continues to base its revenue system on location rents

(2) **Their mass transit system** This is is acclaimed as the best in the world. It was funded out of location rents collected from commercial enterprises that located themselves within the catchment areas of the stations.

(3) **Their Social services.** The astonishing fiscal and physical accomplishments of the HK Administration need to be assessed in the historical context, as highlighted by the demographic record.

- a. Beginning soon after 1945, ***HK became subject to an unremitting flow of migrants*** fleeing the Communist regime. They climbed the "bamboo curtain" and placed enormous pressure on the British authorities who were obliged to provide housing and social services. As the population rose relentlessly to the present

level of 7.4m people, the authorities managed to keep pace because the enterprises of the migrants raised location values (rents) which fed through to the public purse to fund the construction of social housing.

b. London’s record was one of attrition. This is shown in the table, which reveals a **mass exodus from london** 1950s to 1990s:

1951	8,164,416	+0.22%
1961	7,781,342	-0.48%
1971	7,449,184	-0.44%
1981	6,608,513	-1.19%
1991	6,887,280	+0.41%
2001	7,172,036	+0.41%

By rights, the condition of the London population ought to have improved exponentially. Furthermore London, unlike Hong Kong, does not suffer from topographical disadvantages (much of the HK territory is composed of inhospitable hills). And yet, despite **London’s declining population**, both social services and the physical infrastructure were not able to keep pace with human needs from the 1950s to the 1990s, and have not since.

When there is not even enough housing and social services to meet the human needs of

UK citizens it is not surprising that migrants, who also need housing and social services, are sometimes regarded with suspicion.

We document the human costs in **Debt, Death & Deadweight**. <https://landresearchtrust.org/>

The financial outcomes are revealed by the huge budget deficits and London’s contribution to the accumulation of an enormous UK sovereign debt.


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A recent survey of Hong Kong’s fiscal history and current outcomes is provide in Andrew Purves (2015), *No Debt, High Growth, Low Tax* (London: Shephard-Walwyn, ISBN: 9780856835070). But we recommend that, in redesigning London’s fiscal and social systems, Parliament and the Mayor ought to commission their own reports on how Hong Kong flourished despite the enormous topographical and demographic challenges, and publish the deadweight losses of the present UK system, so that Londoners can benefit from their lessons.

Today, the historical deficit will be compounded by the challenges that will emerge in London post-Brexit. These include the implications of a growing London population (now numbering 8.6m). Only by adopting the location-based funding system – known in the literature as “land value taxation” or “land value capture” – can the UK and British capital hope to match some of the world-class fiscal achievements on display in Hong Kong.

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