
Models of fair public ownership: lessons from Singapore and Hong Kong

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Abstract: The question of public as opposed to private ownership is often cast as ideological or one of economic efficiency. Here, the question will be asked as to whether there are particular assets which should remain in public ownership due to the nature in which their value is created. Viewed in this way, the same public assets can in turn be used to deliver public revenue in a way that does not deter their use – as the revenue arises from economic rent. Examples from Hong Kong and Singapore are used to illustrate their effectiveness in delivering social as well as economic benefits.

Keywords: public revenue; land rent; fair public ownership; land value tax; land lease sales; self financing infrastructure; Mass Transit Railway; MTR; Housing Development Board; HDB; Singapore; Hong Kong.

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1 Introduction

So often, the debate about public ownership is based on a narrative that sets the public interest against the private interest. In this debate in western democracies, one can characterise the period since the Second World War as having been a game of two halves. In Britain during the war, a social democratic narrative emerged, where the interests of society would be put first, in part to reward the collective effort to defeat the Nazi

dictatorship, but also perhaps, to defuse the attraction of the alternative collective ownership experiment in the Soviet Union. This social welfare model was presented in the UK with the publication of the Beveridge Report in 1944, and its main recommendations were introduced during the following three decades. Living standards rose dramatically, and public service provision of housing, healthcare, and education among others became the normal expectation. We had ‘never had it so good’¹.

However, this direction was challenged by many, including Margaret Thatcher, British Prime Minister 1979–1991, and Ronald Reagan, US President 1981–1989, leading to a reversal of public ownership and provision during the next 40 years, and the victory of the private interest. While this was driven primarily by ideology at least in the UK (see for example, Hayek, 1944), there was an appetite for change, due perhaps to the imbalance of power between the trades unions, management and government. The 1980s were as much about curtailing the power of the unions as the resurgence of free market principles, and the intended efficiency from competition.

We have now reached an intellectual and philosophical point at which voters are challenging the assumptions of globalisation, the dominance of financial interests and multinational companies protected by undemocratic supra-national organisations. This is in part a response to a sustained period of rising inequality, and a smaller share of national wealth flowing to labour, but also reflects a desire to rebuild the idea of local community, and sharing of resources at a time of environmental stress.

In this paper, I look at how two jurisdictions took a different path over these years. Hong Kong and Singapore have developed a somewhat unique approach, based on distinctive models of public asset ownership, which has been either missed, misinterpreted, or ignored by many economists and social scientists. This omission is now being rectified (see Cullen, 2014; Phang, 2007; Haila, 2016). The context for this is the resurgence of interest in the importance of society working together, and the public benefit of recognising the collective value of public assets, highlighted by Detter and Fölster (2015). Not only do Hong Kong and Singapore offer good examples of efficient use of public assets, but in doing so, these two cities have transformed themselves from colonial backwaters to thriving international centres for trade and services. Their respective GDPs per capita² have overtaken that of the UK, their former colonial master. Much of that progress is due to their approach to public asset ownership.

Some dismiss the lessons that can be learned from these two jurisdictions for various reasons: their small size; their reliance on a hinterland for resources; their authoritarian ‘one party’ governance. But this would be a mistake. Many of the principles applied in a pragmatic way in Hong Kong and Singapore can be adapted easily for larger, more democratic countries. In the case of Singapore, the idea of giving all people a stake, in the form of property ownership, was advocated as a vital element of nation-building, although, ‘ownership’ was not absolute, or permanent. In the current climate of public disenchantment with politicians, this could offer a way to re-engage with civic society. There is one caveat – particularly in the case of Hong Kong, the problem of the high price of land has not been avoided, in fact, it could be said that the Hong Kong administration pursues a policy of high property prices, given that so much of their revenue is derived from land values. Whether a policy or not, it means that for young people, their accommodation costs take a very high portion of their earnings. This problem could be overcome, however, with a proper distinction of what constitutes the public interest in land or property against the private interest.

In this paper, I will briefly review what we mean by public assets (Section 1). I will then give examples of public ownership from Hong Kong and Singapore, focusing on land use (Section 2), housing (Section 3), state owned companies (Section 4), and provision of public transport including airports (Sections 5 and 6). Concluding (Section 7), I argue that our discussion of public ownership in Hong Kong and Singapore provides many insights into a model of *fair public ownership*.

2 What are public assets? What makes public ownership of them fair?

Governments may own assets: it might be to fulfil a public purpose – a government building, for example a parliament or offices to house civil servants; a police service; land for military bases and exercises; a sewage treatment works; a road network or public transport infrastructure – these would generally be built to facilitate the creation of wealth by and for society as a whole. They are often considered to be public assets, as it would be difficult for an individual to build these for himself, and once built they tend to benefit all members of the society. These assets have value, not just for today, but for the future (Detter and Fölster, 2015). A concentration and focus on GDP growth by governments and economists has left a blind spot for policy makers that is beginning to be illuminated (Hamilton and Hepburn, 2016) – public assets are being recognised for their potential to enhance growth, rather than simply being a cost.

There are other less tangible public assets, more akin to collective services, sometimes referred to as intangible capital (Hamilton and Liu, 2014). Important examples of these are a common language, the rule of law upheld by a network of courts, or a national currency issued by a central bank. For the purposes of this paper, however, I will concentrate on the more tangible assets of property and infrastructure.

Looking back over the last few hundred years, we can see a pattern of some of these assets having always been in public ownership without controversy, but other categories have come into existence perhaps first as private assets, sometimes created by charitable institutions, but often during the 19th or early 20th century these assets were transferred into public ownership. For a time, it was accepted that it made sense to perform certain functions collectively, in the name of efficiency or fairness. In fact for a period, in many countries there was a deliberate effort to create facilities for education, health or pension provision for all citizens as a matter of right, under public direction and ownership.

However, in the latter half of the 20th century, in some countries, to some extent, this notion was challenged. Different governments were more or less zealous about transforming the public into private, depending on the ease with which it could be done, or the political will it could muster to make the change. These decisions were often ideological rather than economic, although the idea of efficiency was usually evoked to make the transfer. In some of the privatisations, there was a good deal of artifice involved to introduce the idea of competition, which lay at the heart, and was perhaps the prime motivator, of the process. In addition, some privatisations gave rise to relatively short term gains: once a public utility has been sold, it cannot be done again – it is a one off gain for the exchequer.

In some countries assets such as offshore oil deposits, or other mineral deposits underground are treated as public, and companies have been offered leases or concessions by governments, to explore and exploit these potential sources of commodity

wealth. In some developing countries lacking formal systems of title, governments have leased large tracts of land to overseas investors, sometimes to the detriment of local people who have lived on the land for generations. In such situations, a lack of formal title has allowed the state to define as public assets anything it cares to define in that way. This process has given rise to the phrase, ‘land-grabbing’ (Pearce, 2012). Other sources of wealth have been similarly licensed in recent years in developed economies, for example fishing quotas or segments of the radio spectrum for mobile phone signals.

As some of these examples show, there can be a good deal of interpretation needed as to what is public or private. Thus, it is time to re-assess what is meant by public assets. And more to the point, what is the right model of public ownership? What factors should determine whether an asset is in public or private ownership. Is this simply a matter of economic efficiency? Does the market dictate that all goods and services should be in private ownership? Are there some goods and services which can only be provided to the public as a whole, and therefore by publicly owned agents?

What if there was a different way to imagine public assets, not as tools of ideological correctness, of competition, but as sources of income, an alternative to taxation as a source of public revenue (Burgess, 1993)? Or: as the means by which public services, such as transport, could be delivered cost effectively? Or: as a mechanism to ensure a measure of fairness in the distribution of income and wealth? By addressing such questions we can perhaps begin to discern the outlines of a model of fair public ownership.

3 Public ownership of land

With these issues in mind, I now turn to the examples of Hong Kong and Singapore to illustrate what might be possible for other countries in this new era of debate about what constitute public assets, and how best to use them. Each, in their different way, has exploited the idea of public assets to the full, and realised their value for the benefit of all. I first give a little history, and recognition, that in these two jurisdictions, perhaps the most significant public asset in this context is land.

Both Hong Kong and Singapore became British colonies during the 19th century, and have grown from being the island homes of small fishing villages to two of the most significant cities in Asia. Singapore is independent, while Hong Kong since 1997 has been a Special Administrative Region (SAR) within the People’s Republic of China, with its own administration governed by the Basic Law for 50 years, as agreed between the UK and China when sovereignty was returned to China.

All land in Hong Kong is owned by the government. It is made available to individuals and companies through a lease of varying length and with certain conditions, in return for an annual rent (Government Rent). There is a long and convoluted history of how this system evolved, which I will not go into here³. The guiding principles can be found in Articles 6 and 7 of the Basic Law referred to above. It is worth quoting these in full:

- *Article 6*

The Hong Kong Special Administrative Region shall protect the right of private ownership of property in accordance with law.

- *Article 7*

The land and natural resources within the Hong Kong Special Administrative Region shall be State property. The Government of the Hong Kong Special Administrative Region shall be responsible for their management, use and development and for their lease or grant to individuals, legal persons or organisations for use or development. The revenues derived therefrom shall be exclusively at the disposal of the government of the Region⁴.

What this means, in principle, is that the revenues derived from the land itself, or its location value⁵, can be used for public revenue. In practice this is what the leaseholder is prepared to pay at public auction for the right to ‘own’ the lease. At the same time, the revenues generated by the leaseholder through whatever activity or investment and development occurs on the land belong to the leaseholder. The leaseholder’s interest and security of tenure is protected in law. One might have reversed the order of these two articles, but perhaps it was prudent to assert the protection of private ownership first, given the heartfelt attachment to ‘our’ property, before acknowledging the right of government to the collective contribution of the value of land. As Anne Haila (2016) says:

“The land question is not only an economic question concerning the efficient use and management of land as property rights scholars assume, it is also a *moral, social, political and ideological question*. Land can be used either for the public good or to maximise rental income, and its use, management and ownership necessitate justification.” (p.219)

In the case of Hong Kong, in the financial year 2016/2017, out of total public revenue of HK\$498bn land premium receipts totalled HK\$67bn (13%) (Government of Hong Kong, 2016) – made up from a combination of new lease sales as well as lease modification agreements. A new lease sale is an agreement to lease for, say, 30, 50 or perhaps 70 years a particular piece of land, with permission for a particular kind of development to be built on it, for example a residential apartment block of a certain height, within a certain time period. On the other hand, lease modification premiums are charged in return for a change of use, or to allow redevelopment of a particular piece of land (e.g., from industrial to residential), or for new, higher buildings on an existing leasehold piece of land. Lease modification premiums are paid to the Urban Renewal Authority, after agreement on the new use and development parameters, and payment can be phased over a period of time, or ‘in kind’, for example by building a new school as part of the new development. In this latter way, the Hong Kong government benefits from the ongoing rise in land values due to population growth or economic development more generally, while the leaseholder can maximise his return on investment in buildings on the land. This distinction, and separation of location value from use value is grounded in insights given by Adam Smith (1776), David Ricardo (1817) and Henry George (1879).

Returning to Hong Kong’s General Revenue account, an additional HK\$50bn (10%) in 2016/2017 came in from Stamp Duties, most of it from the sale and purchase of property via a transactional tax at varying rates. A further HK\$20.7bn (4%) came from investment income, including income from the Land Fund held by the Hong Kong Monetary Authority on behalf of the people of Hong Kong. The Land Fund was established in 1983, when agreement was reached between the UK and China on the return of sovereignty to China. All land premiums up to 1997 were invested in the Fund,

rather than being spent through the general expenditure account. These figures exclude annual Government Rent receipts, revenues from general property tax (rates), or personal taxes on rental income. Taking all these streams together, almost 30% of public revenue in Hong Kong is derived from land values.

These receipts are healthy, and depend on high land values, which gives rise to high property prices. This is a problem for young people, albeit one which can be addressed with a proper understanding of the mechanism in play. In Hong Kong in particular, one could argue that not enough land is made available for lease, which is in part responsible for the high cost of housing. One could also propose an increase in the Government Rent (currently only 3% of rateable value on new leases) which would have the effect of bringing down the upfront cost of new lease premiums at public auction. David Webb, an active investor, estimates that “land premiums in current auctions would be between 32% and 40% lower for GR30 leases than for the current GR3 leases” (Webb-site Reports, 2010b). A GR30 lease would carry Government Rent at 30% of rateable value per annum, as opposed to 3% for the GR3 lease, which would have the advantage of spreading the income from the lease over the full term, thereby further reducing the need for general taxation. What is necessary is a systematic evaluation of how and where this publicly created value arises, and how best to collect it.

Turning to Singapore, the government by 2002 owned 90% of the land, but this was not always the case. On gaining independence first from Britain, and then after expulsion from the Malaysian Federation in 1965, the new Singapore government deliberately went about buying land. It inherited all land originally owned by the colonial administration, as well as a system of ownership which comprised an ad hoc patchwork of leasehold land (of different length) and some freehold plots⁶. In 1949, 31% of land was in public ownership, which had increased to 49% by 1965. The Land Acquisition Act 1966 accelerated the process, allowing the compulsory purchase of land “needed for any public purpose, by...any statutory board ... for any residential, commercial or industrial purposes” [Motha and Yuen, cited in Haila, (2016), p.73].

The previous owners were compensated, but never at more than existing use values, and often at historic use values. One of the early dates for valuation was 30 November 1973, although this was later amended to January 1986, January 1992, and January 1995, as the country became more prosperous. Lee Kuan Yew, Prime Minister of Singapore from 1959–1990⁷ explained these fixed points for valuations:

“I saw no reason why private landowners should profit from an increase in land value brought about by economic development and the infrastructure paid for with public funds.” [Lee, (2011), p.97]

Public land is managed through statutory boards, such as the Housing Development Board (HDB) and the Jurong Town Corporation (JTC), which have specific purposes. The JTC was set up in 1968, and charged with developing land and buildings for commerce and industry, making it available for lease to private operators. In the year to 31/3/15, its revenue was S\$1.9bn, mainly derived from land and building rental income (Jurong Town Corporation, 2016). Its net assets were S\$19.6bn with a net annual surplus of S\$1.3bn. As a statutory body it transfers any annual surplus to the Government’s Consolidated Fund. As of May 2013, JTC managed 43 estates that covered 7,100 hectares of land area, providing 3.2 million square metres of ready-built space for 5,100 customers (Jurong Town Corporation, 2013). Its strategy is to build ‘clusters’ of facilities for particular industries, which encourages innovation sectors to invest in Singapore.

It is more difficult to gauge the exact annual income from land sale premiums in Singapore as they are not recorded as part of annual government revenue. However, as well as land managed by the HDB and JTC, the Singapore Urban Redevelopment Authority (URA) handles land lease sales on behalf of the government to private developers, and earns a fee, rather like an agency, on those sales. Its own accounts declare the fee income, and they also publish a list of all land sales together with the ‘successful tender price’ every six months. In 2016 the sales of eight 99 year leases are listed, with a total tender price of S\$5,083m. The eight leases comprised a total 114,252m sqm of site area, and each lease attracted between 6 and 14 bids (Urban Redevelopment Authority, 2017). It is also possible to get an idea of revenue from total land sales in Singapore from statistics based on the International Monetary Fund’s Special Data Dissemination Standards (SDDS), published by the Department of Statistics in Singapore. In 2015/16 sales of nonfinancial assets came to S\$15.5bn (Department of Statistics Singapore, 2017), although this may include assets other than land and may not take account of any purchases in the same year. It seems that these receipts are retained in the Singapore government ‘reserves’ rather than being recorded as annual revenue.

Either way, the public ownership of land in both Hong Kong and Singapore offers each jurisdiction a significant source of income to benefit wider society, without depriving private users or investors of the opportunity to generate wealth for themselves or their companies through their own investment and activities *on* and *above* the land. This illustrates the possibility for governments elsewhere to levy a tax on location value, without disrupting the economic activity that takes place (Stiglitz, 2015). On the contrary, such a levy would serve to bring vacant land into use, and encourage the best possible economic use of all land. Although both Hong Kong and Singapore ‘own’ the land, there is no actual need to nationalise or take land into public ownership – all that is necessary is to make an annual levy on the location value.

4 Public ownership in housing

Next we turn to the question of housing, an issue often referred to as being in ‘crisis’ or ‘broken’ in many western countries, including the UK (Department for Communities and Local Government, 2017). Both jurisdictions are relatively small and experienced rapid population growth in the second half of the 20th century, largely as a result of an exodus of people from China and Malaysia. Conditions for housing were poor, with extensive shanty or slum dwelling in both cities evident well into the 1970s. Both governments decided to act to provide better housing.

In Hong Kong, the decision was made to provide basic public rental housing in large high rise estates. The early estates provided little more than two or three rooms to a family, with shared cooking and washing facilities on every landing. In time, the estates became more sophisticated, with independent flats containing their own facilities. At ground level, there were shops, restaurants, schools and some leisure facilities or public space and gardens. Today, about 30% of the population lives in these public housing units, and many of the early estates have been replaced with more modern apartment blocks (Hong Kong Housing Authority, 2018). Rents are low, (HK\$1540 per month on average, including all management fees, see Hong Kong Housing Authority, 2017) and from the 1980s schemes were established to allow residents to buy their flats such as the Home Ownership Scheme (HOS) or Tenant Purchase Scheme (TPS). Since inception

about 10% of the population have taken advantage of these schemes, often with subsidised loans, and some of these flats can also be sold on the secondary market, after a specified time delay. Subsidies are available for any residents unable to pay their rent, due to unemployment, disability or old age.

In Singapore, a new form of ownership was devised. Singapore citizens who satisfied certain income and wealth criteria were able to buy flats under a 99 year non-renewable lease at a subsidised price. After a certain period of time, the flat could be sold, and a second, perhaps larger flat could be bought, again with the subsidy. Any further move would be to a flat in a private development, or, for the really successful, a so called landed property, which was a rare freehold purchase. Over time residents were able to borrow from their own Central Provident Fund⁸ (CPF) account, (a compulsory individual saving scheme linked with their employment), to help purchase these apartments.

Ownership of these HDB apartments peaked at 87% of the population in 1990, falling back to 82% in 2009⁹. Home ownership remains high in Singapore at 95% of the population, the balance being both public and private rental. The public rental sector could be described as social housing, with heavily subsidised rents, while the private rental sector largely serves itinerant foreign workers in Singapore on a temporary contract for a multinational company. The important thing to note is that the HDB housing was never social housing. The motivation was to give all Singapore citizens a stake in the new nation. In the view of Lee Kuan Yew, the founding Prime Minister of Singapore, if you were going to ask the people to work hard, to build the nation, they would need rewards: “What we have attempted in Singapore is asset enhancement, not subsidies. We have attempted to give each person enough chips to be able to play at the table of life” [Kwang et al., (1998), p.159]. This was a recurring theme in his speeches and writing: “My primary preoccupation was to give every citizen a stake in the country and its future. I wanted a home owning society” [Lee, (2011), p.95].

In relation to the question of public assets, you might ask, to what extent are HDB flats public assets, given that they are owned by individuals? How can the state own 90% of the land, but at the same time, 95% of the population own their houses? The trick is that the state remains the freeholder, while the citizens are leaseholders. At the expiry of the lease, the property reverts to the state. In other countries with leasehold systems of ownership, the freeholder is usually another individual, who can command a premium for the renewal of the lease – often with no obligation on the freeholder to do anything in return – except perhaps to manage the maintenance of common parts, at the expense of the leaseholders.

Singapore can offer to each successive generation the same opportunity to take a stake in their nation, at a subsidised price, using their own savings to purchase an apartment on the same non-renewable, 99 year leasehold basis. One mechanism that has emerged which allows the HDB to modernise and upgrade (as well as use the land more efficiently by building higher apartment blocks), is the selective en bloc redevelopment scheme (SERS), whereby existing leaseholders are bought out, or offered apartments in newer developments, in return for giving up their original lease. If the owners die before the expiry, the remaining years of a lease can be bought from their estate, while the newly refurbished flat can be sold again to the next generation. The difference in price between, say, a lease with ten years remaining, and the new 99 year lease is treated as public revenue, after the expense of refurbishment. Once again, in the words of Lee Kuan Yew (1965), who flirted with socialism in his early years, but later became a prominent

champion of the free market: “We believe it is immoral that the ownership of property should allow some to exploit others”.

So the state of Singapore has secured an asset, through the public ownership of land, which can offer each generation the same opportunity to prosper and build their own assets for use, but not in perpetuity (at least for the individual).

The HDB is organised as a statutory corporation wholly owned by the government, with its day to day management free from political control. Its equity is valued at S\$15.2bn¹⁰. Its land and buildings were last valued on 3 March 86, and acquisitions since then are valued at cost, less depreciation and impairment¹¹, making it difficult to value their freehold property holdings. Their non-current assets (current assets of S\$16.5bn being properties still in development) are valued at S\$62.2bn in the same report. Any surplus on its development activity is transferred to government reserves. Included within its non-current assets are loans it has made to homeowners, which will be repaid over time.

5 Public companies

Singapore’s HDB was born out of the colonial Singapore Improvement Trust (SIT) whose assets, together with other government land holdings, were transferred to the new state on gaining independence. Along with holdings in land, which included military establishments and ports, were a number of colonial public bodies and utilities, including the Post Office and telecommunication infrastructure. Here we come to another area of public asset still retained by the Singapore government: public companies.

All of these assets were managed by the Ministry of Finance at first, and in 1974, many of these, particularly the trading companies, were brought together in an investment holding company called Temasek, which adopted commercial principles of management and investment (see also Lansley et al., this volume). The value of assets transferred in 1974 was S\$354m, whereas, as of 31/3/16, the value of the same holding company was S\$242bn¹². While many of its holdings are in the original companies and assets in the initial portfolio, it now has investments in companies all over the world. For example it owns 51% of SingTel, Singapore’s main telephone company¹³. In financial services, it owns 16% of Standard Chartered, an international Bank, and 30% of DBS, a bank incorporated in Singapore which was originally 100% owned by Temasek. In transportation, it owns 56% of Singapore Airlines, and 54% of SMRT Corporation, which operates much of Singapore’s public transport network, including trains, buses and taxis. In property it owns 100% of Mapletree, a Singapore developer, and 25% of A S Watson Group, a retailer with outlets throughout South East Asia.

Temasek has delivered 15% Total Shareholder Return since inception in 1974, a compounded annualised measure which includes dividends paid to its single Shareholder, the Singapore Ministry of Finance. It is difficult to estimate how much has been paid in dividend over the years. Since 2015, a Net Investment Returns (NIR) contribution has been declared in the annual Government Budget process, with a revised figure of S\$9.9bn for 2015. Total government operating revenue in that year was S\$64.16bn, and total expenditure was S\$68.41 – before the NIR contribution, although the government was at pains to point out that this was not the same as actual dividend paid (Government of Singapore, 2016).

Whatever the actual figure, which remains somewhat opaque, it is clear that the Singapore government enjoys substantial financial benefit from direct ownership of companies in Singapore and elsewhere, held through its investment vehicle Temasek. This is a most unusual form of public asset for a government to hold, at a time following an extended period of the privatisation of state assets in other countries. The literature on this subject often concludes that state ownership of firms is generally inefficient compared to private ownership, Megginson and Netter (2001), although Seiferling and Tareq (2015, p.21), conclude that: “unlike past contributions, this paper finds that government acquisition of equities on their own, are not indicative of fiscal gimmickry, as average returns over time for transparent governments tend to be relatively profitable.” Others highlight Singapore’s strategy as a protective measure against global shocks, such as the Asian financial crisis of 1997, and “that it serves to sustain the legitimacy of the nation state” [Clark et al., (2013), p.xv]. Singapore seems to have avoided the pitfall of picking losers instead of winners. Temasek, through its ownership of ‘government linked companies’ (GLCs) which account for 37% of Singapore’s stock market value, and government linked real estate investment trusts (GLREITs) at 54% of the REIT market, scores well on transparency, independent governance, and accountability, as well as performance. As one recent report concludes:

“The findings bring into question the unfavourable literature on government ownership. SGX-listed GLCs and GLREITs are well managed, efficient, and profitable. They play a vital economic role in transforming Singapore from a developing third world country to its current status as a globalised city-state. It can be argued that GLCs and GLREITs in Singapore are an exception to how SOEs around the world are owned, managed and governed.” [Sim et al., (2014), p.8]

Curiously, however, this success is rarely recognised in any discussion or report regarding the success of Singapore as a free market economy. Reference is always made to low levels of taxation, small government and the ease of doing business in Singapore, free from regulation. Hong Kong and Singapore are often listed as first and second in the Economic Freedom Index published by the Heritage Foundation, an influential pro-free market think tank¹⁴. Very few commentators (Detter and Fölster excepted) refer to the public ownership of land or trading companies in Singapore, or the consequent enjoyment of income derived from these assets.

The logic of this form of public ownership of assets is clearly to provide an income to the government - an alternative to general taxation, not enjoyed by many countries. We can observe that resource rich countries (particularly oil producing countries, such as Norway, Qatar, the UAE, and Saudi Arabia) have relied on the sale of these assets to finance public spending during the last seventy years, and have created Sovereign Wealth Funds from the surplus, to manage the investments derived from the sale of these resources. But both Hong Kong and Singapore lack these natural resources, and yet enjoy investment income as a source of government revenue. In Singapore, the investment income is very direct. In Hong Kong it arises in a more circuitous route, and sometimes as a by product of another form of public service provision, as I will now describe.

6 Public transport: railways

In most developed economies, public transport is subsidised, and networks are operated either directly by publicly owned companies, or through private operators who have secured a franchise. What if public transport could be self-financing? Or even return a profit to the government which might have made the initial investment in the network?

A clear example of this is provided by the Hong Kong Mass Transit Railway (MTR). Hong Kong is one of the most densely populated cities in the world, with over 7 million people occupying 1,100 sqkm – an average density of 6,650 per sqkm, rising to 46,000 per sq km in downtown Kowloon. During the colonial era, the British government realised the best way to improve transport mobility, and promote productivity, would be to develop an underground railway. Most of the research work took place in the late 1960s, and by 1973 tender documents were ready. A Japanese company Mitsubishi won the HK\$5bn contract to build the railway. However, the sudden increase in energy prices forced them to withdraw. This allowed the Hong Kong government to re-think the project, and a decision was made not only to scale down the initial system, but to grant development rights to the main contractor in return for building the railway. It had been recognised that in other countries when you build a public railway, the land along the route, and particularly around the stations, tends to increase in value. A public statutory corporation was established in Hong Kong to manage the process: MTRC, wholly owned by the government, with a share capital of HK\$2bn. Existing leaseholders along the route were bought out by the government at pre-railway prices, and the land was then sold (leasehold) to MTRC in return for equity. Having the land to offer as collateral, MTRC could issue Corporate Bonds and raise conventional loans from banks to begin building the railway infrastructure. It was then able to auction the development rights to build apartments, hotels or office blocks above the stations to property developers at post railway prices. The difference between the price paid for land leases, and the receipts from the sale of development rights, paid for the railway.

The developers in turn were able to sell on leases in the new properties. The premiums people were willing to pay for apartments above the stations ranged from 15–80% depending on the location and proximity to the station entrance (Cervero and Murakami, 2008). In some cases, the MTRC retained ownership of these assets, particularly in the case of shopping centres built on top of the station podium, to provide ongoing rental and estate management income. It is interesting to note, that the licence given to MTRC to operate the railway is coterminous with all the land leases sold to them, so that if they were to lose the licence to operate the railway, they would lose the benefit of land ownership. On average, between 2001 and 2005, the MTRC generated revenue from the following sources: railway 28%, property development 52%, property investment and management 10%, non fare (such as advertising) 10%. While most western governments subsidise their public transport system to varying degrees, Hong Kong's MTRC is consistently profitable, with profits rising from HK\$5,962m (£458 m) in 2006 to HK\$10,894 m (£838 m) in 2015 (this excludes property revaluation gains/losses).

MTRC has been so successful that in 1999 the Hong Kong government decided to sell 23% of the corporation to the public through an initial public offering (IPO), which generated HK\$9.2bn for the government. The dividend paid in 2015 was HK\$6,207m (£477m) of which the HK government received 77%, commensurate with their continued majority ownership of the corporation¹⁵.

MTRC have continued to use this method to finance new routes, and work hand in hand with the Hong Kong government planning authority to develop New Towns and other infrastructure. At a meeting in March 2014 with Sharon Liu, Chief Town Planning Manager of MTRC, she confirmed to me that when a new project is proposed, the first question is: 'How much land do we need to cover the cost of building the railway?' This simple question encapsulates the logic behind the whole process. In the case of building the rail infrastructure to service Hong Kong's new Airport, lots of land was needed, which continues to be developed along the route nearly 20 years after the opening of the airport. There are now 14 railway lines in operation across the network, including high speed links with cities in China, as well as two lines still under construction.

7 Public transport: airports

Turning to the airport itself, a similar method was employed to build a new airport in the 1990s. Hong Kong International Airport (HKIA) is operated by the Airport Authority Hong Kong, a statutory body, created in 1995 to develop the new airport, wholly owned by the Hong Kong government. The airport was built on land reclaimed from the eastern tip of Lantau Island (essentially, part of the island was pushed into the sea), and has two runways. Hong Kong lies within 5 hours flying time of half the world's population, and in 2015, 68.5 million passengers passed through Hong Kong Airport, connecting to over 190 destinations through around 1,100 daily flights by more than 100 airlines (Hong Kong Airport, 2016). There is a plan to build a third runway. Operating revenue in the year to March 2016 was HK\$ 18.2bn, with a profit for the year of HK\$8.4bn. Total equity in the business was HK\$52.5bn¹⁶.

Of the operating revenue, HK\$7.5bn comes from retail licenses and advertising, HK\$4.2bn from landing charges, and HK\$2.5bn from airside service franchises. Under the operating statute, the airport authority was granted a lease for the entire site from 1 December 1995 to 30 June 2047 (50 years after the 1997 handover of sovereignty). In return, the authority had to create the land, (by reclamation) and build the airport. The airport has a total debt to capital ratio of 5%, although with the commitment to build a third runway (with a budget of HK\$ 141bn) this is due to rise in the coming years. This explains why no dividend was declared in 2016, in contrast to the dividend of HK\$5.3bn paid to the Hong Kong government in 2015.

Singapore's Changi Airport is similarly owned by the Singapore Ministry of Finance, and operated by a statutory corporation, Changi Airport Group (CAG). In 2014 it handled 54.1 million passengers, the seventh busiest airport in the world for international passengers. Total revenue in the year to March 2015 was S\$2.1bn, with profit after tax of S\$781m; its equity was S\$6.1bn¹⁷.

While HKIA holds equity positions in airports in China, CAG holds equity positions in airports in several countries, including India, Brazil, Saudi Arabia and Russia. Not only do the airports in Hong Kong and Singapore serve their own populations, but export their expertise around the world, for profit.

Public ownership of airlines and airports has a long history, due perhaps to the close relationship of the development of aircraft for military as well as passenger use, and the commandeering of airfields not in public ownership at times of war. Gradually, during the last 25 years, national governments have divested themselves of ownership of national carriers in some developed economies, whereas in emerging economies, particularly in the Middle East, governments have invested heavily in airlines as a means of promoting a positive image and national identity.

Once again, the argument about whether the airports themselves should remain in public ownership or be sold to private investors has been ideological rather than pragmatic. Perhaps the public in some countries where the decision has been made to privatise were swayed by the poor standard of service offered in the publicly owned facility. One would need to conduct a detailed analysis of the investment programme, and profitability of individual cases, to arrive at a conclusion, but one can ask fundamental questions about what is creating value for the operator, and whether this value should belong to the public revenue or private investors.

Given the large scale nature of the infrastructure required, and the impact (of noise and pollution for example) on those living near an airport, to what extent should private operators be able to make decisions independently of government agencies? If the provision of air transport is in fact public transport, at least as far as the airport infrastructure is concerned, should private owners have the privilege of exploiting the traveller for shareholder profit? Given that the location and very existence of an airport in the age of air transport has national implications for people and business efficiency, can the delivery of air transport infrastructure be left to the private sector? Where does the value created arise? Most travellers in the UK would have a preference for which airport to use, and this preference is reflected in the landing charges which apply at the different airports. Heathrow is clearly the most popular, followed by Gatwick, Stansted and Luton. But the traveller's preference is more about airport location, the destinations to which operators fly from that airport, and the ease with which one can get to the airport, than about the facilities offered by the airport operator. In the UK context, all the main international airports are in the South East, which has major implications for growth and regional development, as well as the road and rail network necessary to service the airports. The customer experience at the airport is almost the same, with the same shops and cafés in which to spend your money while waiting for take off.

The British Airports Authority was created in 1965, to take responsibility for the state owned airports at Heathrow, Gatwick and Stansted. It subsequently acquired the airports in Glasgow, Edinburgh, Aberdeen and Southampton. The Authority was privatised in 1986, through a stock market listing. The company is now owned by a consortium led by Spanish infrastructure investor Ferrovial, which includes the Singapore Investment Corporation (which is also government owned – returning more investment income to Singapore).

New York's main airports, JFK and La Guardia, are both owned by the public through the Port Authority of New York and New Jersey, together with other transport infrastructure including roads, ports and railways. It returns an annual profit to the two States, but has been criticised in the past for poor facilities and a general lack of investment.

In seeking to address the question of who creates the value which arises at a well located airport, in 1998, UK Deputy Prime Minister John Prescott challenged the idea that landing slots belonged to the airlines: "The slots do not belong to British Airways.

They belong to the community” (The Guardian, 1998)¹⁸. In practice, however, Prescott’s philosophy has not applied. The loss making airline British Midland (bmi) was sold by Lufthansa in 2012 to International Airlines Group (IAG) for £172.5m a value derived almost entirely from the value of its landing slots at Heathrow and Gatwick airports:

“IAG, the company that owns BA and Iberia, will pay Lufthansa £172.5m (\$276.2m) for bmi. But IAG isn’t really buying the airline, per se. Instead, this deal appears to be a play for bmi’s valuable slot pairs—rights to take-off and land—at London Heathrow, the world’s busiest airport for international travel. Regulators are making IAG give up 14 of bmi’s 56 daily slot pairs at Heathrow, but the deal will still increase IAG’s total ownership of slots at the airport from an already dominant 43% to 51%, according to an analysis by Dow Jones.” (The Economist, 2012)

In fact in Europe the airlines in possession of landing slots are treated, de facto, as the owners. In the case of Hong Kong and Singapore, by contrast, the argument so far has been won for the public revenue, with landing slots being under the control of the airport authority. In trying to assess what is a fair ownership structure for airports, given the very public nature of the asset, we perhaps need an honest debate about who creates the value: the traveller or the operator? If it is the traveller, to what extent should the profit go to a private operator? Is it enough to collect some of this value through corporation tax (easily avoided), or should more be collected by another means, such as a location value tax? (One could of course widen this debate to question all kinds of location values in a modern economy, but that is not the purpose of this paper).

To conclude our discussion of international airports, in 2016, Singapore’s Changi airport was voted the world’s number one airport by passengers, for the fourth year running as collated by Skytrax. Hong Kong is number five, Heathrow number eight, whereas both JFK and La Guardia are outside the top 100 (World Airport Awards, 2017). We can conclude that ownership status alone does not guarantee the quality of the facility.

8 Conclusions

What are the main lessons from Singapore and Hong Kong as to what constitutes fair public ownership?

Perhaps most significantly it seems reasonable for governments to retain control and ownership of land. This is in order to guarantee residents affordable housing, and to generate public revenue, and/or to offer efficient and cheap public transport facilities. The alternative seems to be ever more complex and devious methods of imposing general taxation to subsidise the otherwise high cost of transport infrastructure, and to pay ever rising levels of housing benefit to hundreds of thousands of people in full employment to compensate for the lack of affordable housing.

To be sure, all is not a Garden of Eden in Singapore or Hong Kong. There are high levels of inequality in both jurisdictions, and at least in Hong Kong housing costs (beyond publicly rented flats) are the highest in the world, leading to serious over-crowding and often squalid conditions in the private rental and private ownership sectors. House prices in Singapore are also high, if one excludes the initial subsidy available for the purchase of HDB properties. However, this largely stems from a failure

to recognise the origin of much of the public wealth in each jurisdiction, and to devise a system to manage and use it for the benefit of all.

More research is necessary to answer some of the questions posed here, as well as a more honest recognition of who generates location value in a rapidly urbanising world. But research such as this has the potential to unleash income, or public revenue, which is otherwise retained for private benefit. Where ownership has already passed into private hands, it is not necessary to nationalise or take land back into public ownership. Control can be reasserted by imposing an annual charge on the location value of all land, ensuring that private owners pay for the services that they enjoy as a result of public investment, and the demands of their community. Changes in value after public investment will be captured so long as the location value is assessed periodically, perhaps every two years, as it is in Hong Kong. If such a rental charge were set at a sufficiently high level, many other forms of general taxation could be reduced, or, as is the case in Hong Kong and Singapore, need not exist at all.

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Notes

- 1 Harold Macmillan, British Prime Minister, in a speech 1957 to fellow conservatives in Bedford [online] http://news.bbc.co.uk/onthisday/hi/dates/stories/july/20/newsid_3728000/3728225.stm (accessed 8 December 2017).
- 2 GDP per capita in Singapore is now seventh, Hong Kong 18th, and the UK 40th in global ranking [online] <https://www.indexmundi.com/g/r.aspx?v=67> (accessed 21 January 2018).
- 3 The best account of this can be found in Nissim (2007), but a summary can also be found on David Webb's web site (Webb-site Reports, 2010a, 2010b). Also of interest would be Smith's account (1966) of Mill's 'Other Island'.
- 4 http://www.basiclaw.gov.hk/en/basiclawtext/images/basiclaw_full_text_en.pdf (accessed 6 December 2018).
- 5 In simple terms, the location value is the premium someone is prepared to pay to occupy a piece of land in a particular location compared to the same sized plot of land in a less advantageous location.
- 6 A brief history of land ownership in Singapore is taken from Haila (2016, chapter 5).
- 7 The period from 1959–1965, was before the independence of Singapore.
- 8 For more information on the CPF see <https://www.cpf.gov.sg/Members/AboutUs/about-us-info/cpf-overview> (accessed 5 January 2018)
- 9 HDB Annual report 2008/2009.
- 10 HDB Annual Report and Accounts for the year to 31 March 2016.
- 11 HDB Annual Report: Note 2 (e)
- 12 All figures in this section are taken from the Annual Review of Temasek Holdings available through their web site: <http://www.temasek.com.sg> (accessed 6 December 2018), unless otherwise specified.
- 13 Temasek owned 100% of SingTel until 1993, when part of the company was sold to investors. Some of the offering was to Singapore Citizens at half the market value, with incentives over time to retain the shares.
- 14 <http://www.heritage.org/index/> (accessed 6 December 2018). The 2016 Global Go To Think Tank Index Report ranks Heritage 12th among the Top Think Tanks Worldwide.
- 15 All figures from MTRC annual report and accounts.
- 16 HKIA Annual Report and Accounts 2016.
- 17 All figures taken from CAG report and accounts 2015.
- 18 The context was in a potential merger of British Airways and American Airlines, that BA would be forced to give up some of their landing slots to other competitors. Could BA sell the slots or not?